

Economic Outlook

Presented to
International Association of Assessing Officers

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Bremerton, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Good news

- Oil and gasoline prices are well below their year-ago levels
- Mar. 2014 – Mar. 2015, unemployment rate dropped from 6.6% to 5.5% in U.S. and from 6.3% to 5.9% in WA
- Real wages showing signs of growth
- Personal income and employment are growing faster in WA than the U.S.

Sources: U.S. Dept. of Energy, BLS, BEA



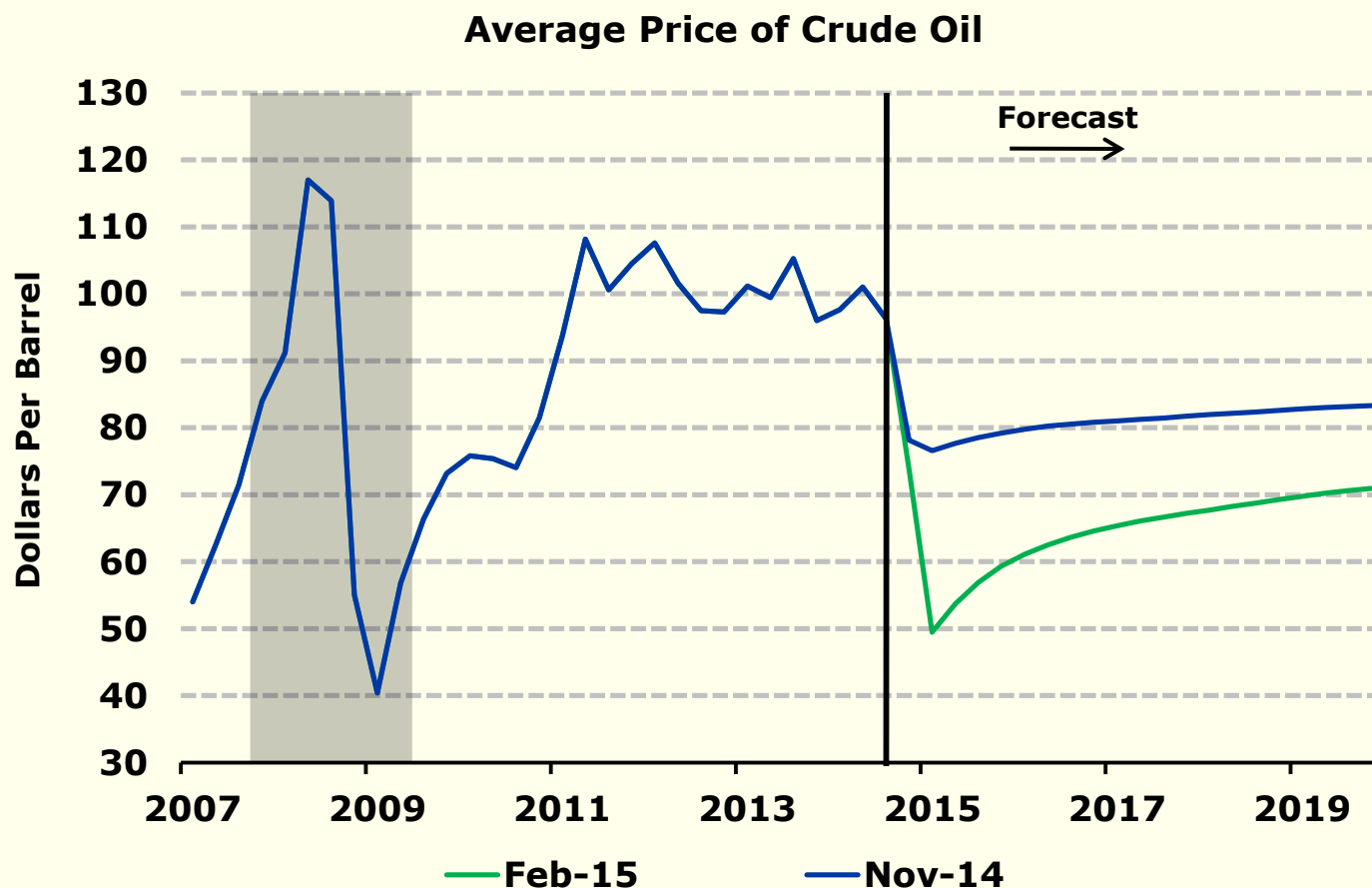
Not-so-good news

- Stronger dollar makes U.S. exports less competitive
- Weak GDP growth in first quarter 2015
- Labor productivity has decreased recently
- Although the unemployment rate has come down, the number of unemployed is still above pre-recession levels in WA and the U.S.

Sources: Wall Street Journal; U.S. BLS, BEA

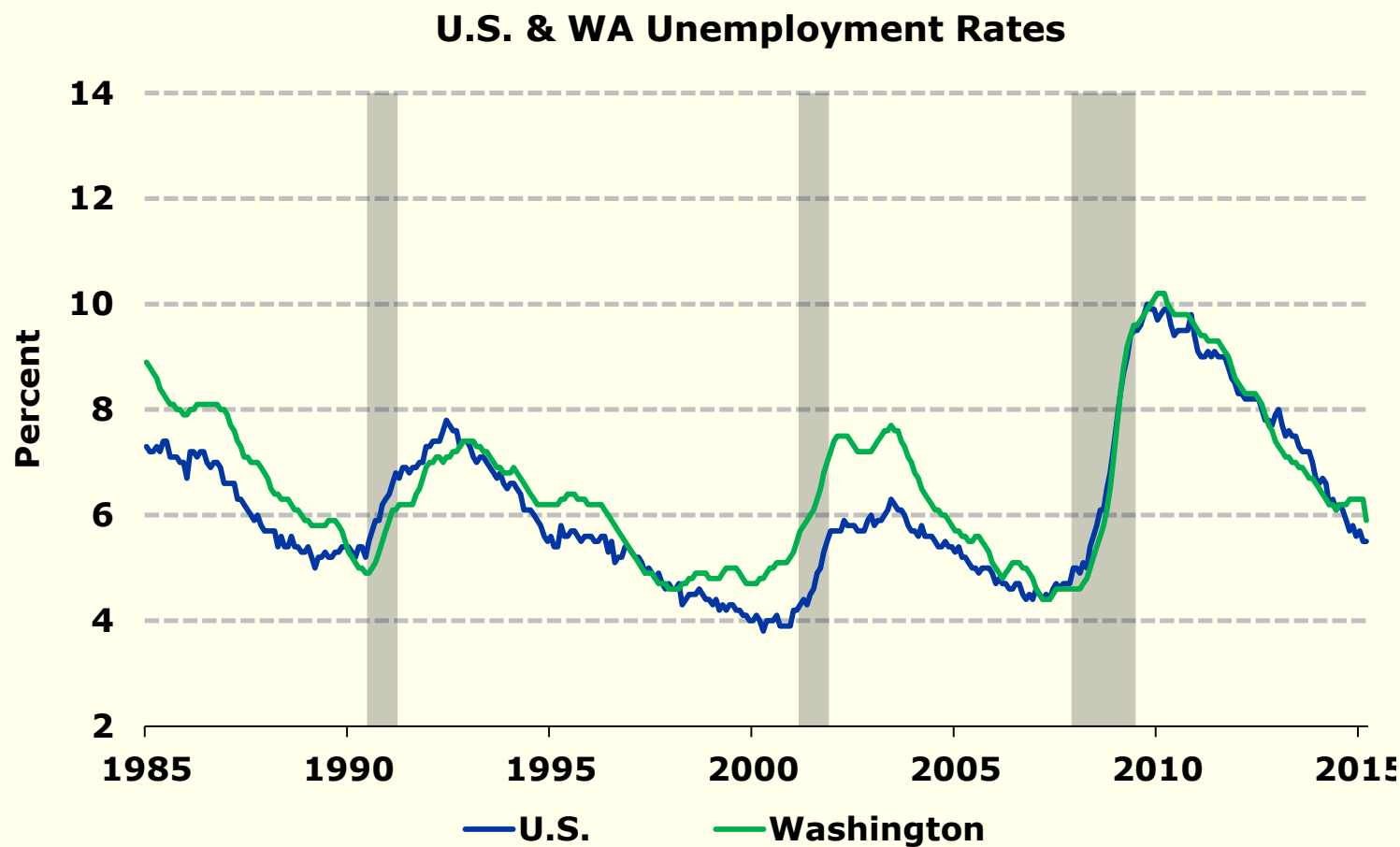


Oil prices dropped even further than expected in November





The unemployment rate continues to fall

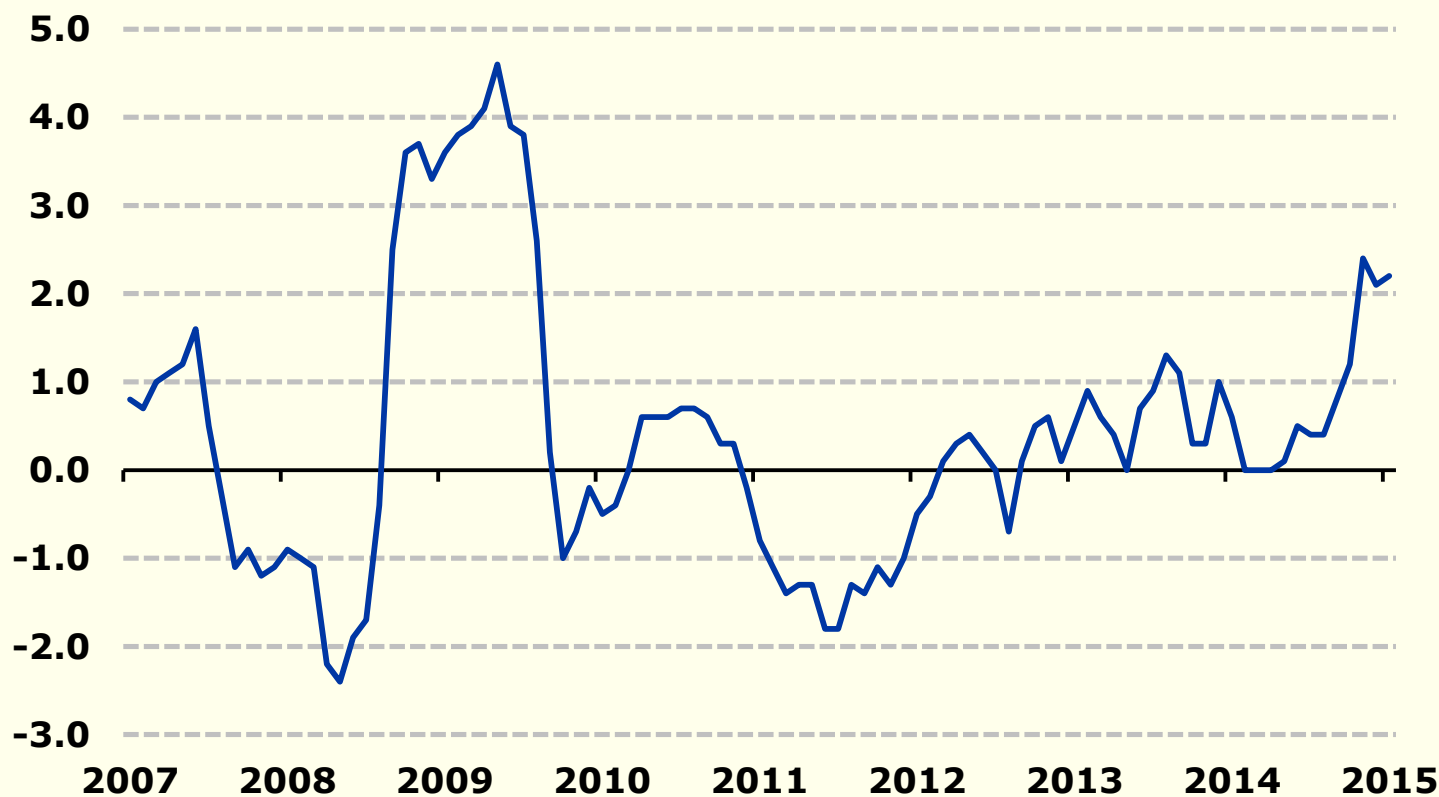


Source: Bureau of Labor Statistics, data through April 2014



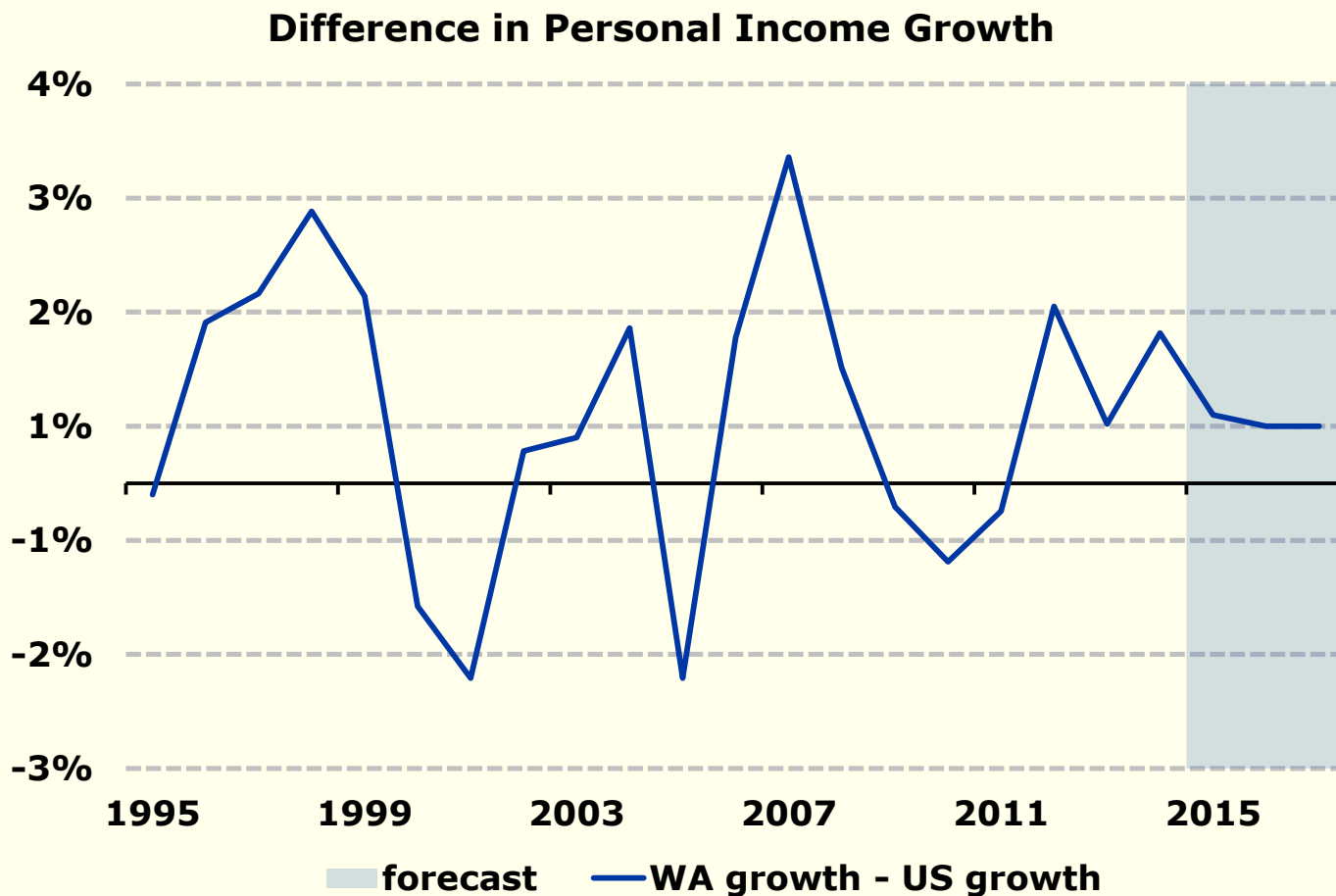
Real hourly wages are showing signs of growth

Year over year growth – real avg. U.S. hourly wages



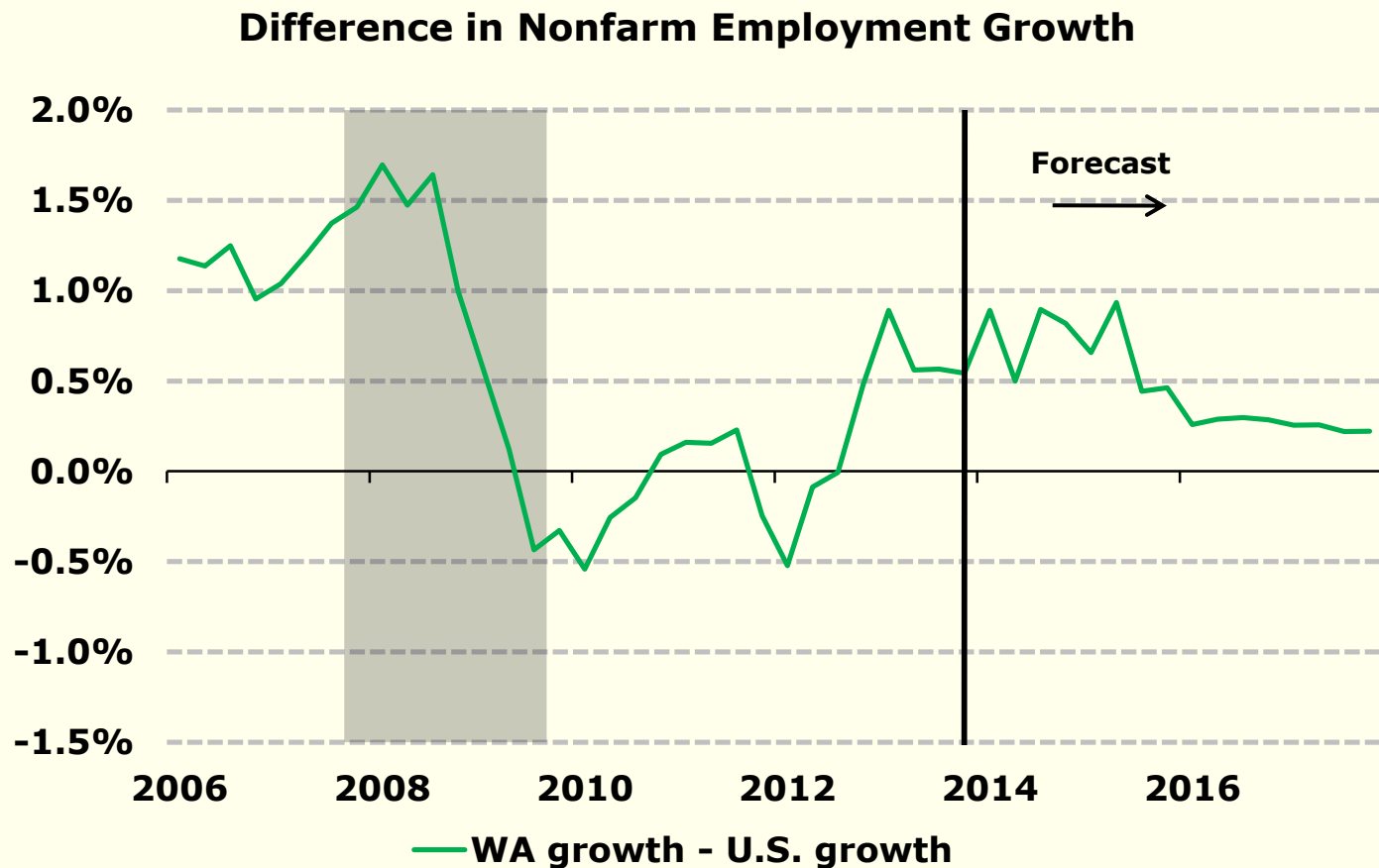


Personal income will grow slightly faster in WA than in US



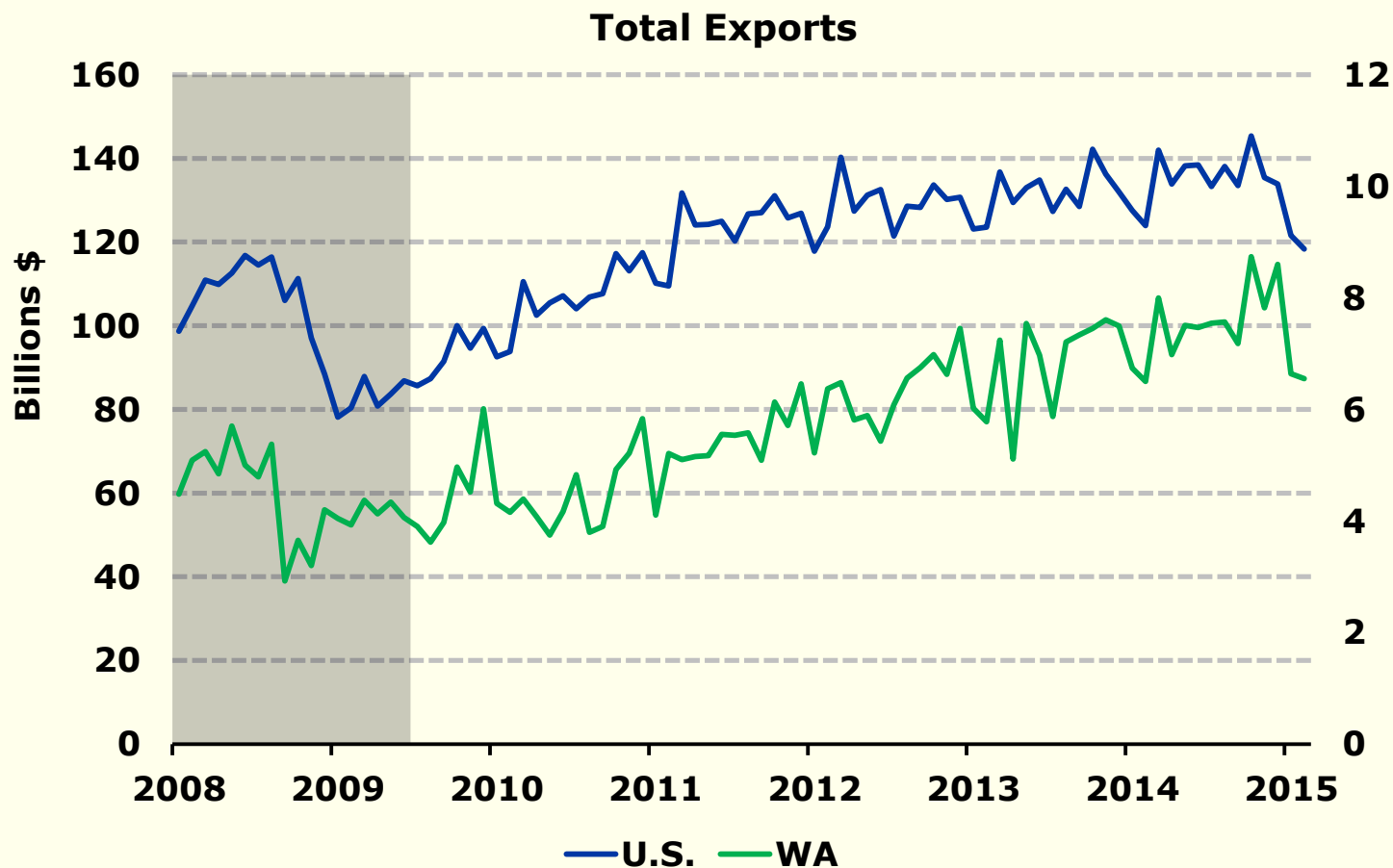


Washington employment will grow slightly faster than the U.S.





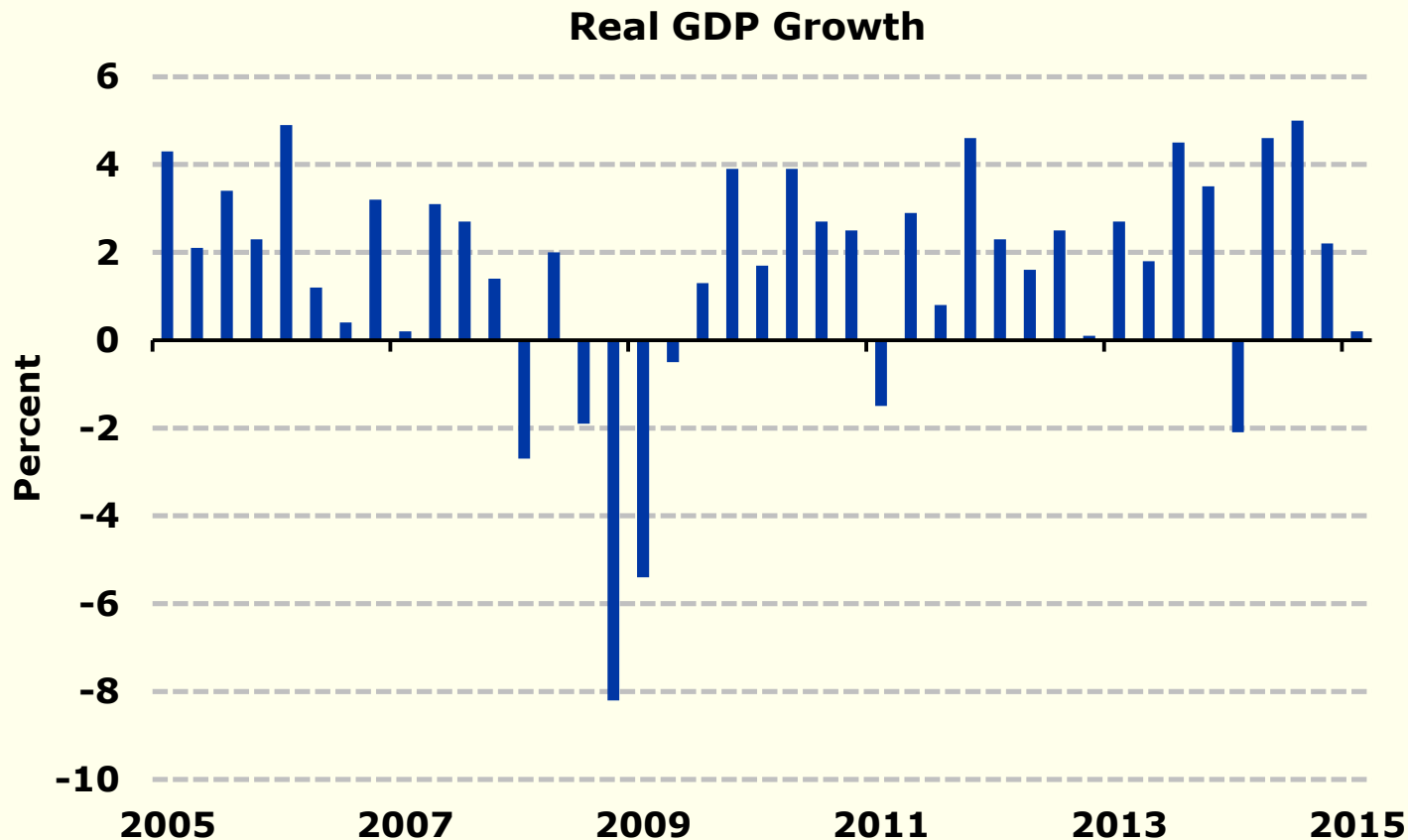
Unclear if recent dip in exports is due to stronger dollar



Source: WISERTrade, data through Feb. 2015

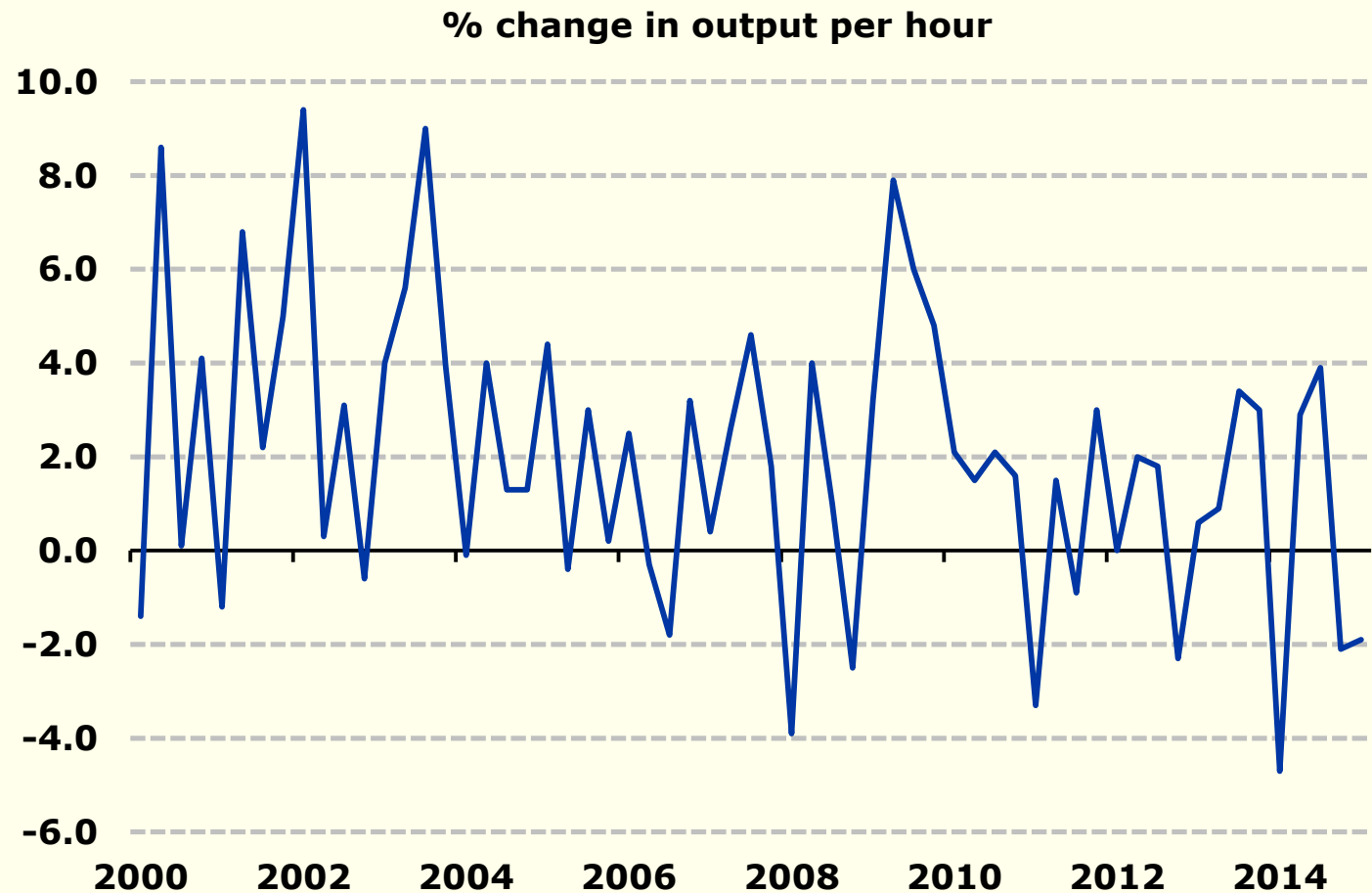


Adverse weather likely contributed to slow growth in first quarter





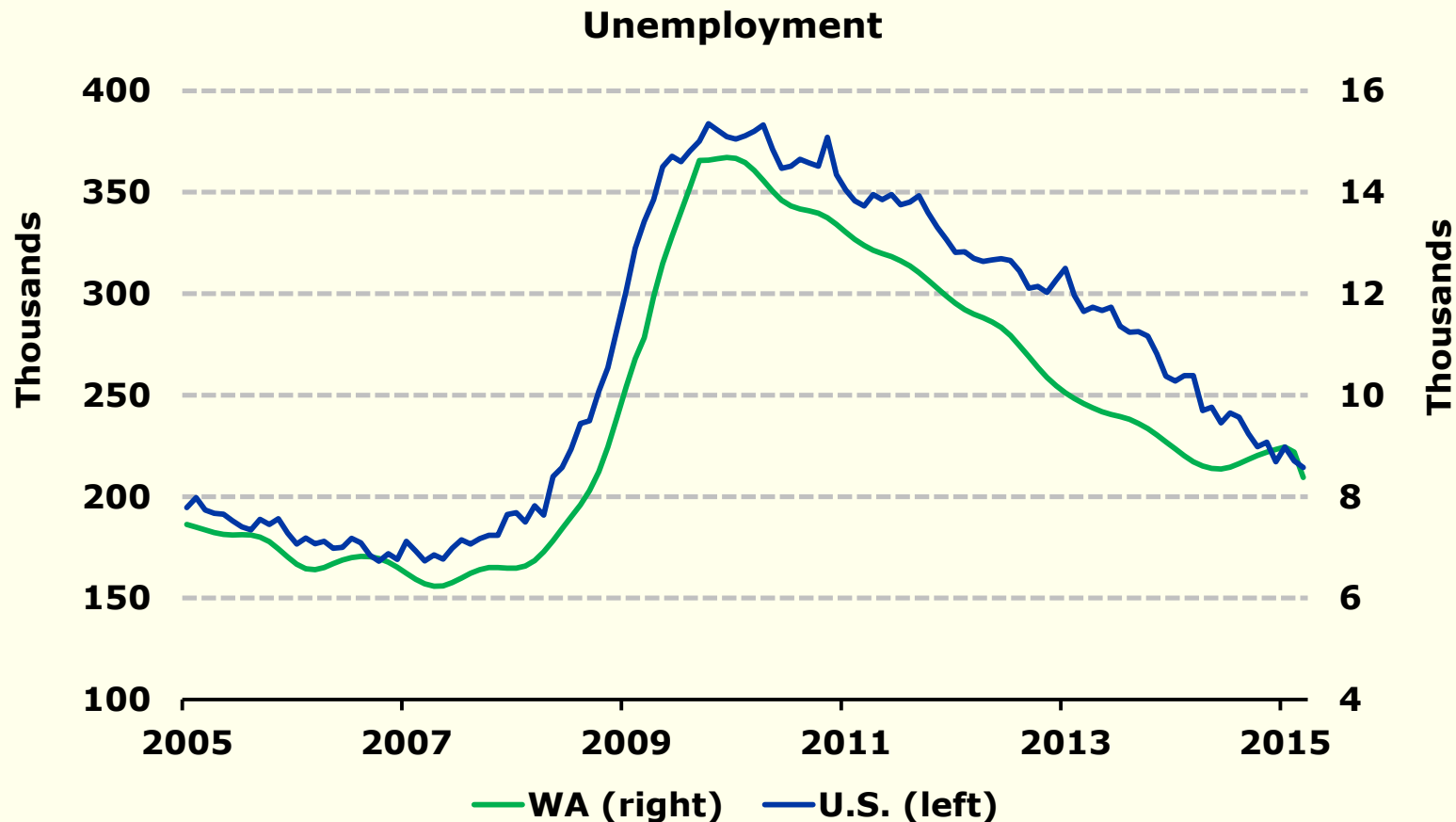
Labor productivity has decreased two consecutive quarters for first time since 2006



Source: U.S. BLS, data through 2015 Q1



The number of unemployed is declining but remains above pre-recession levels



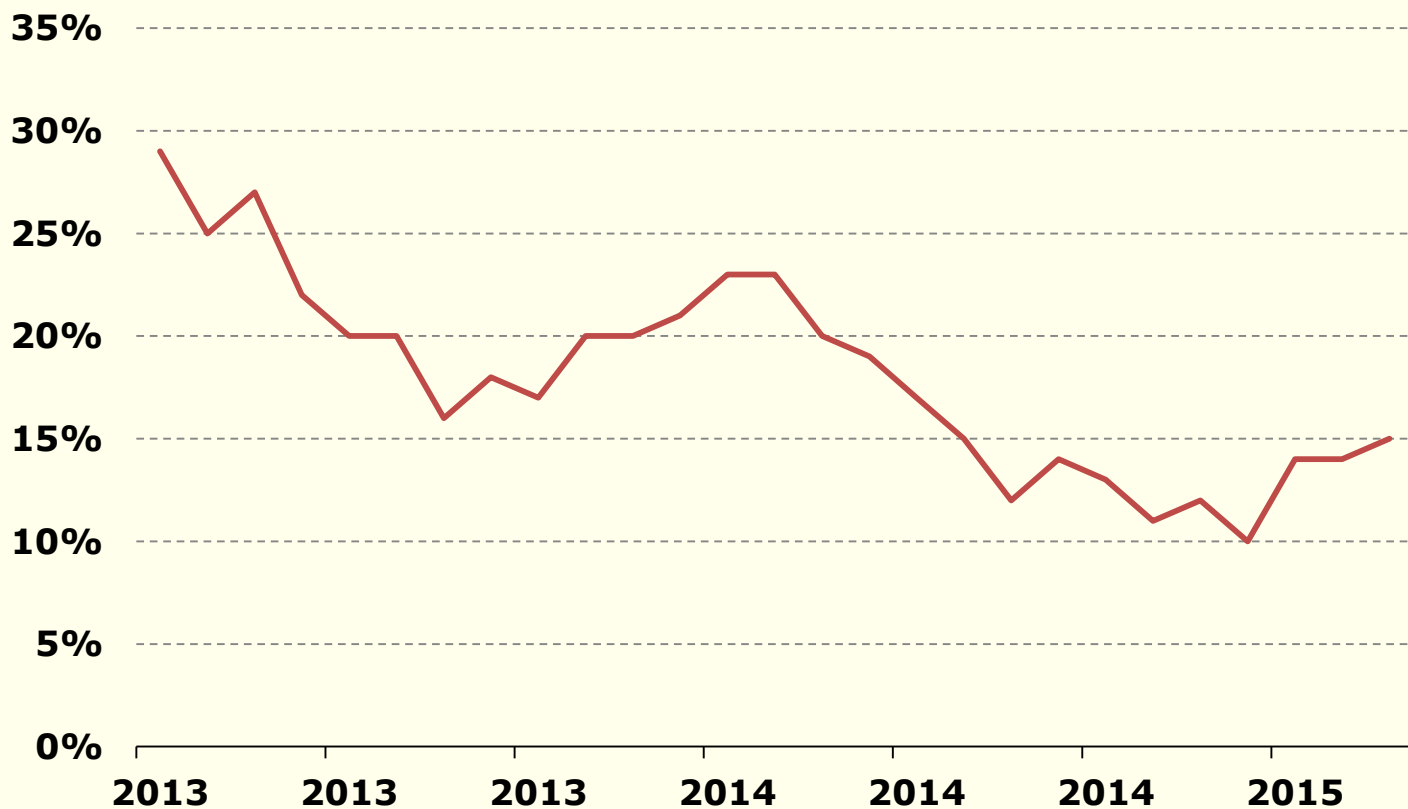
Source: U.S. BLS, data through March 2015



Estimated probability of recession has been below 20% since April 2014

So far in 2015, the probability of recession is lower than 2013 or 2014 averages

Moody's Analytics: probability of U.S. recession within six months



Source: Moody's Analytics, data through Mar. 2015

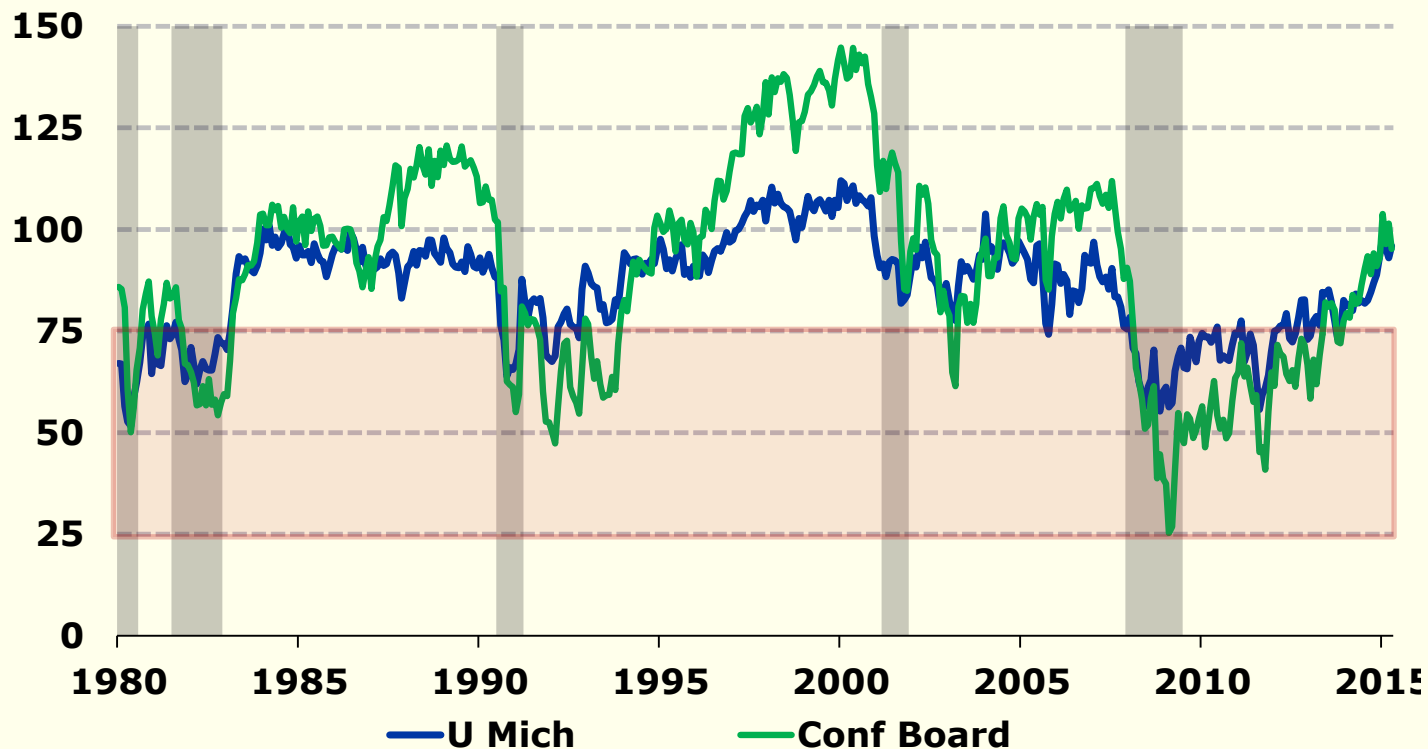


Consumer confidence has generally improved since mid-2014

Index

Mich: 1966Q1 = 100, SA

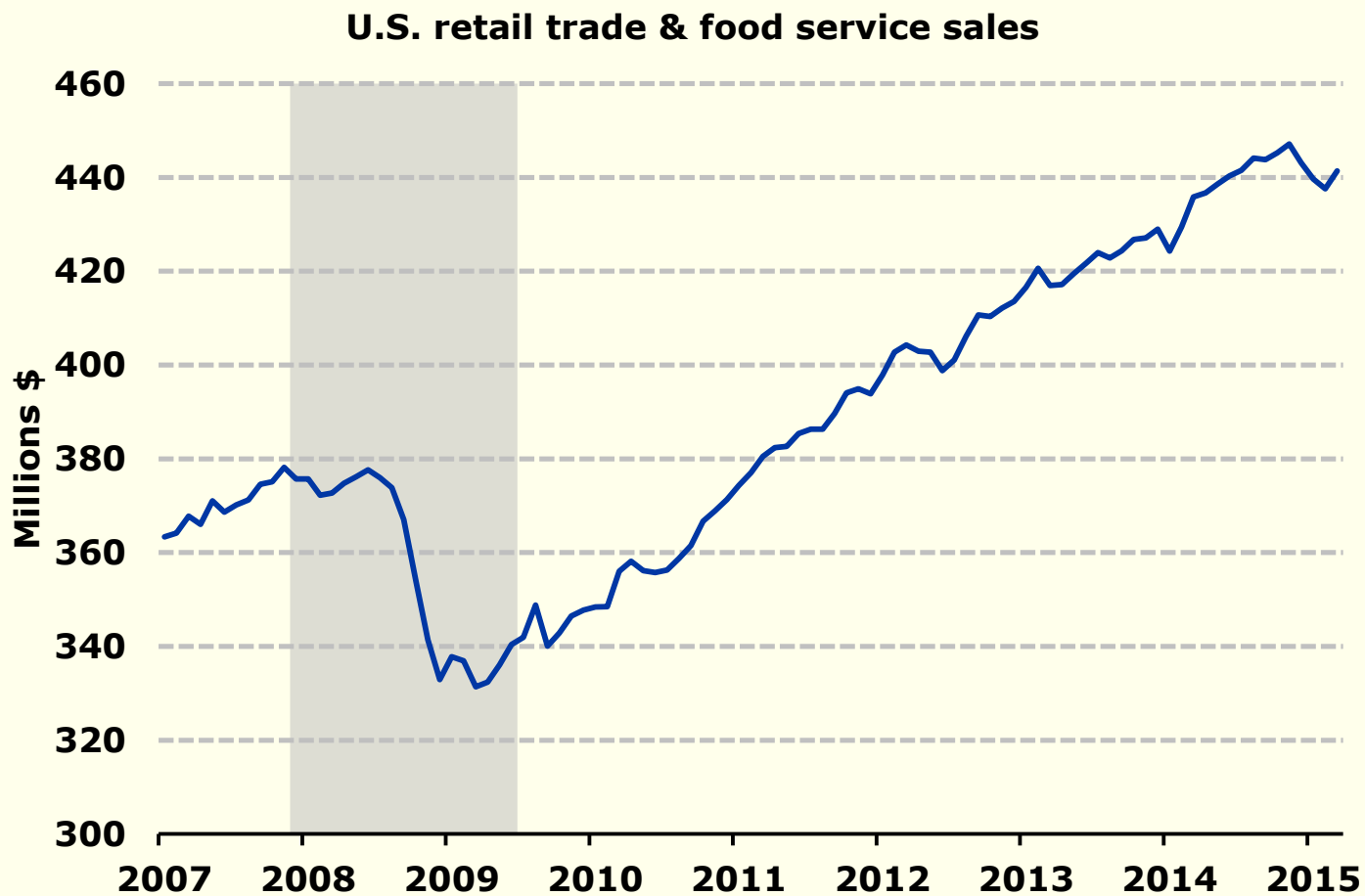
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through April 2015



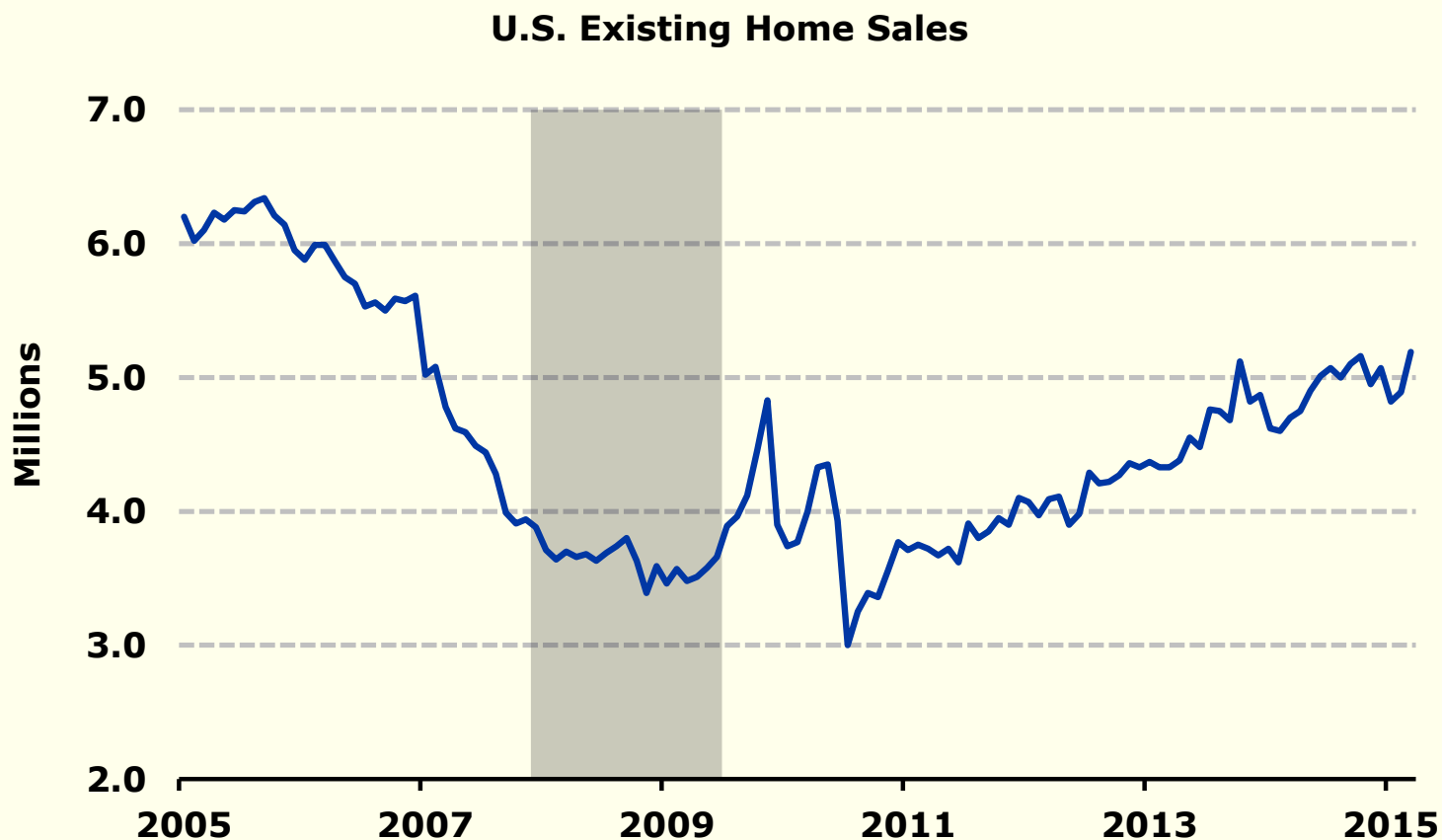
Retail sales have slowed recently



Source: U.S Census Bureau, data through March 2015

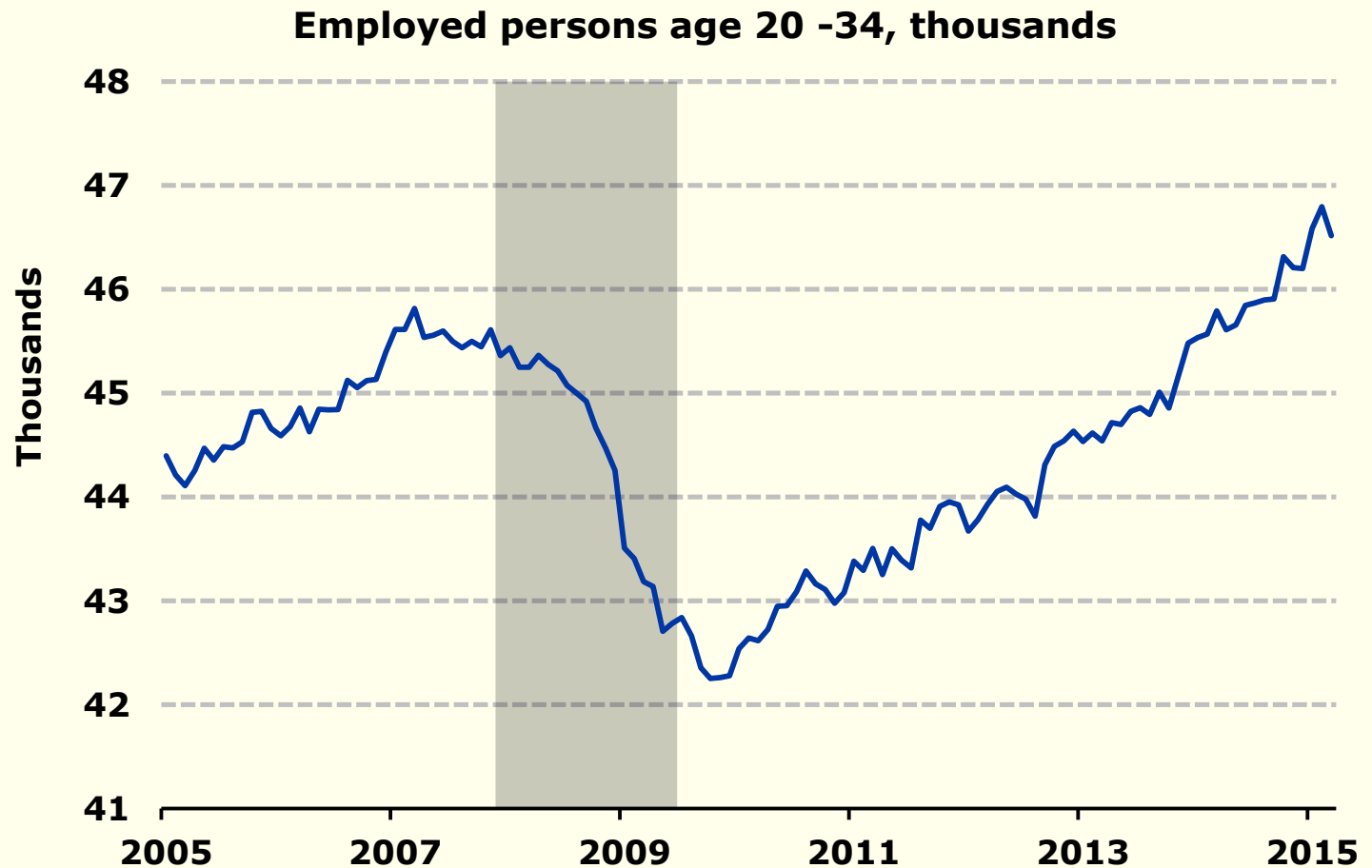


Existing home sales have leveled out



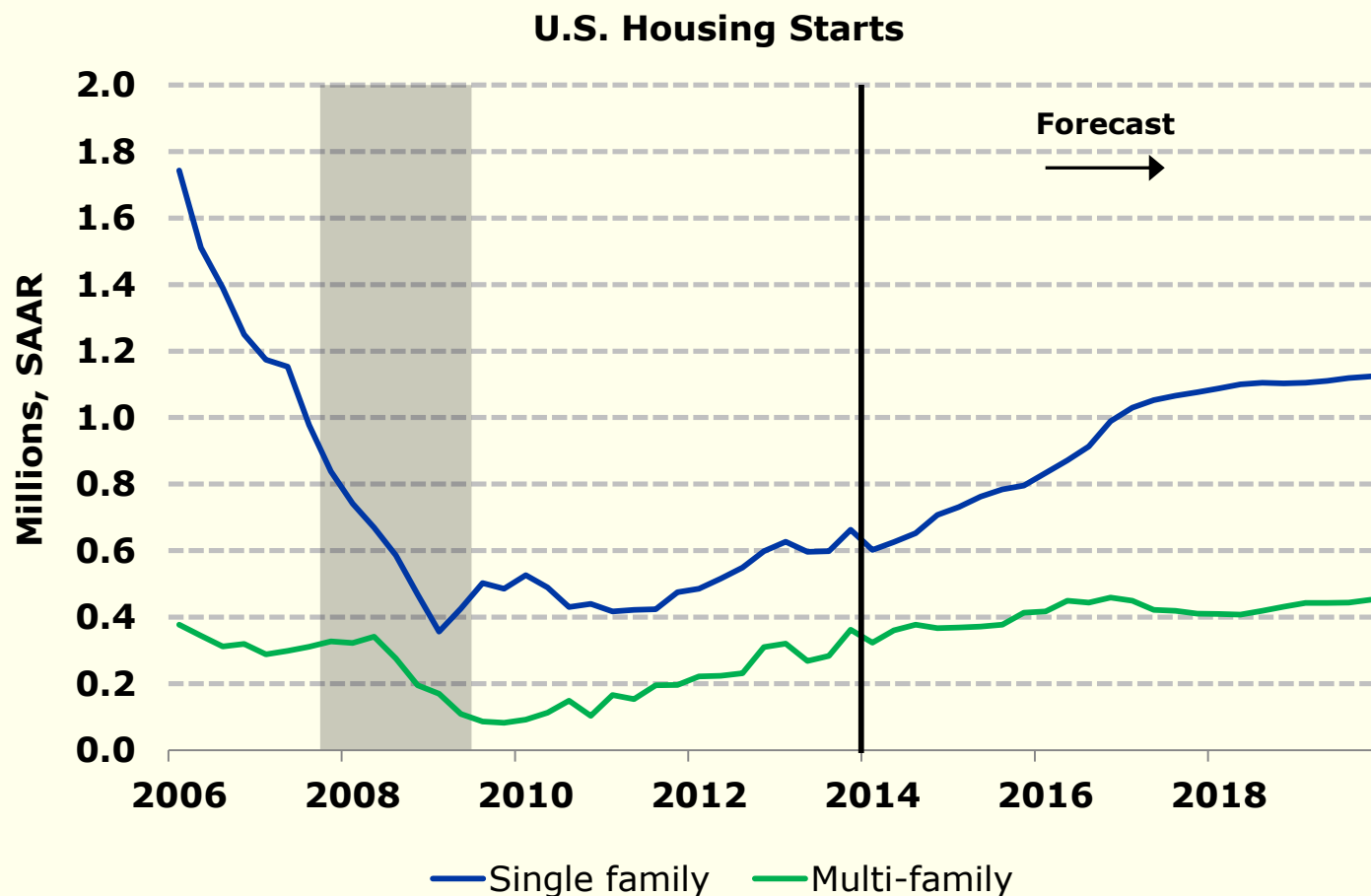


Rising number of 20 - 34 year olds with jobs should increase household formation





Nationally, housing starts are expected to grow through 2019

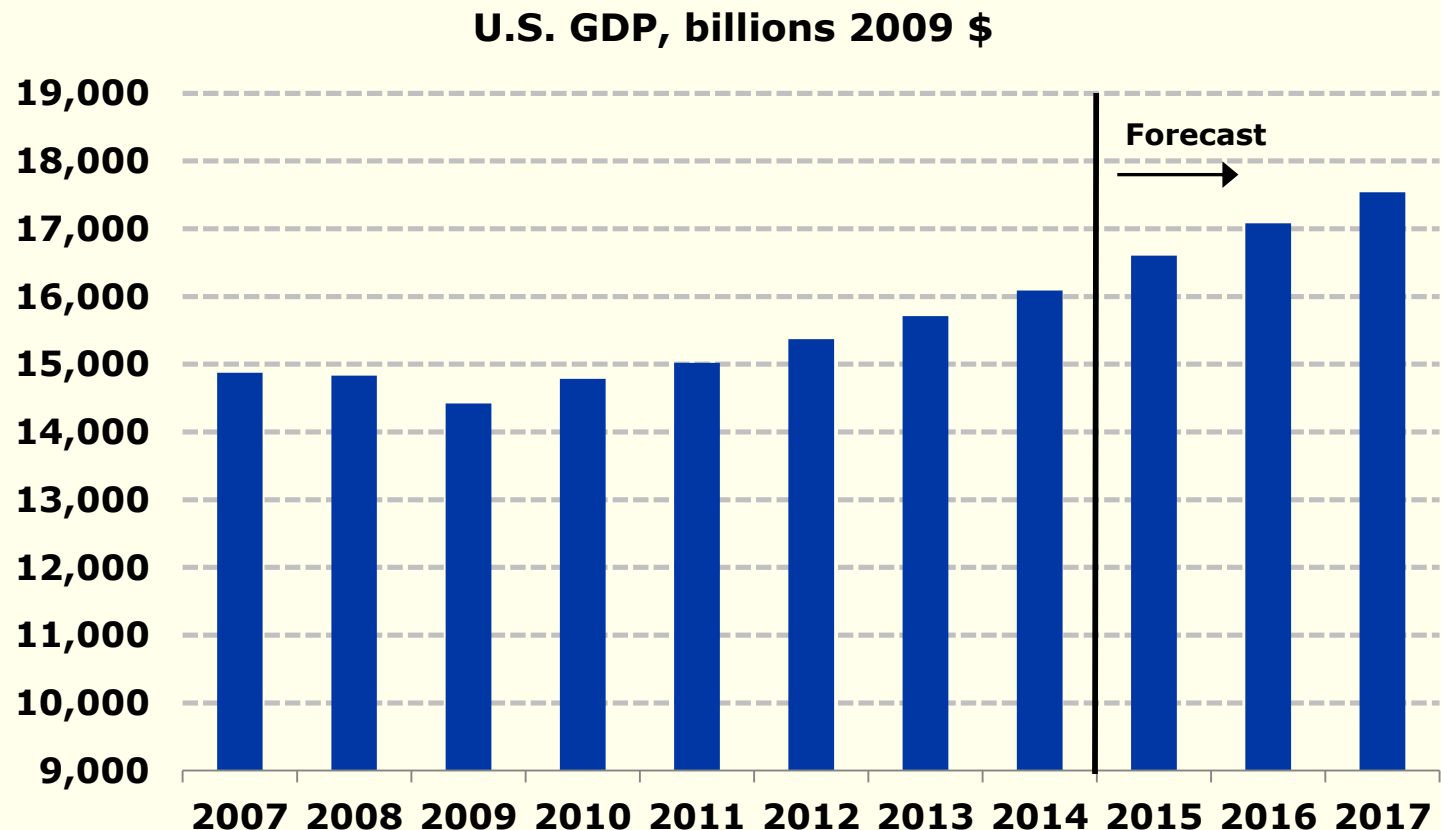




After 1.9% growth in 2013, GDP is expected to grow 2.9% this year

GDP is expected to average 2.9% growth over 2014 – 2017.

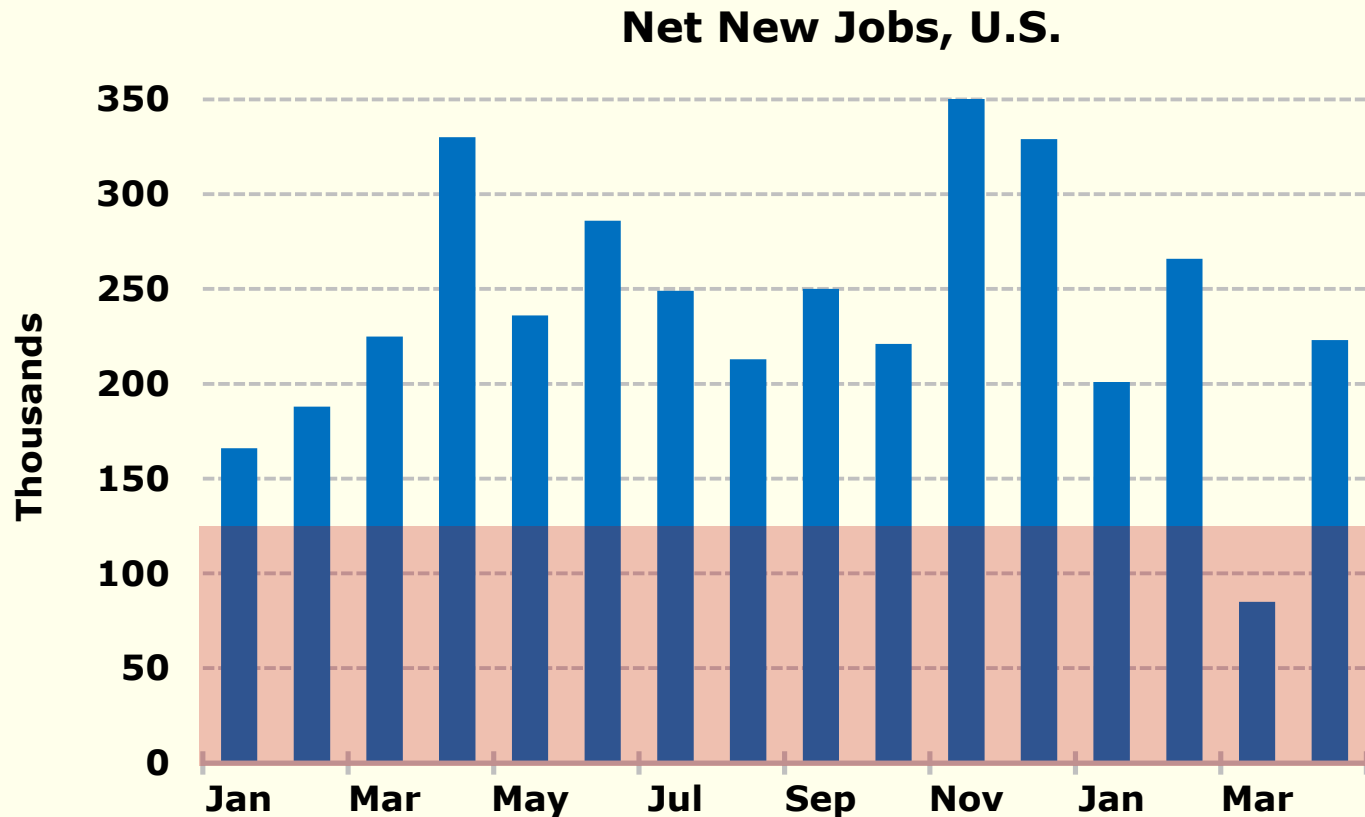
Weak data in 2015Q1 suggests growth could be lower in next forecast.





Job growth weakened in March but bounced back in April

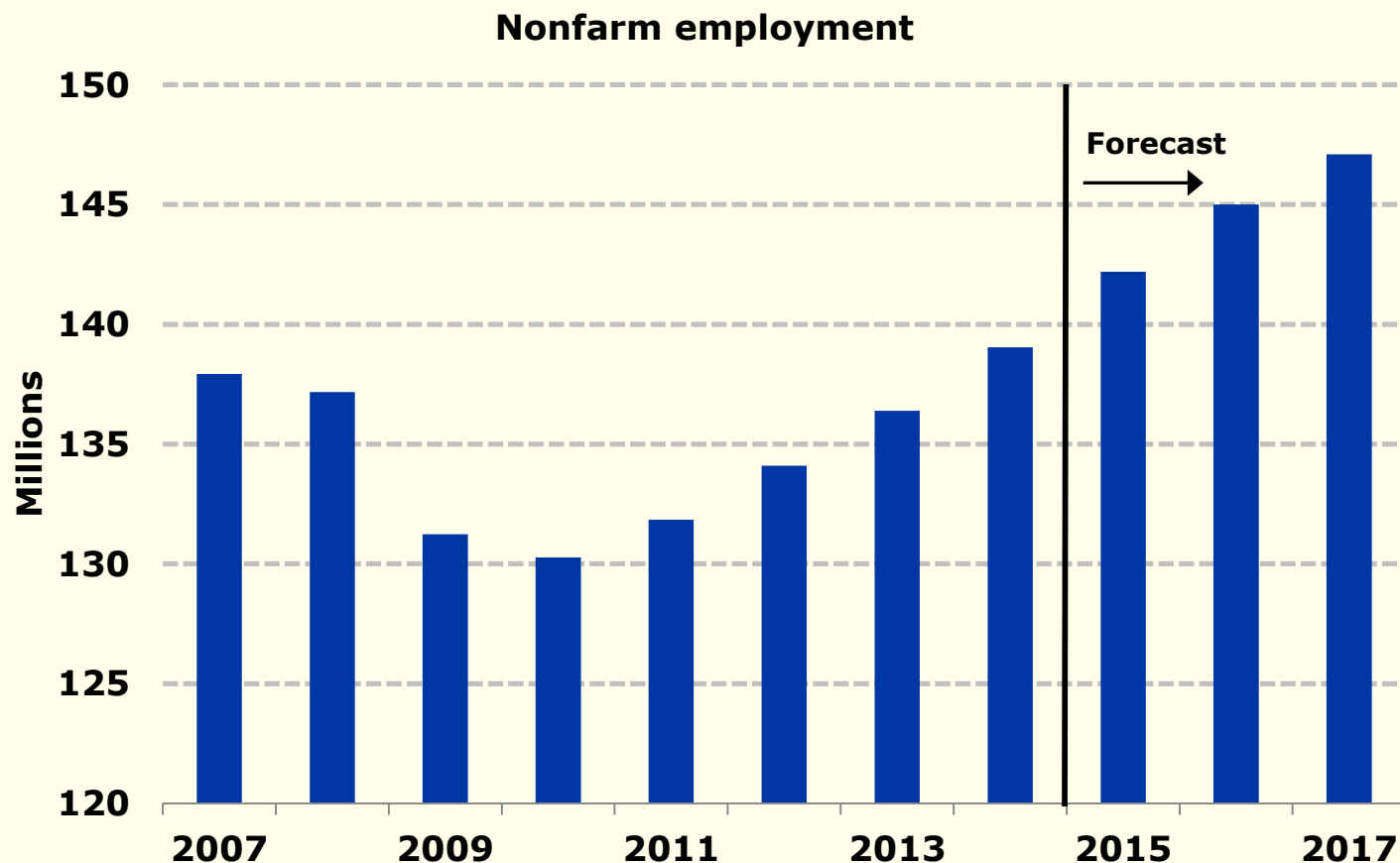
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through April 2015

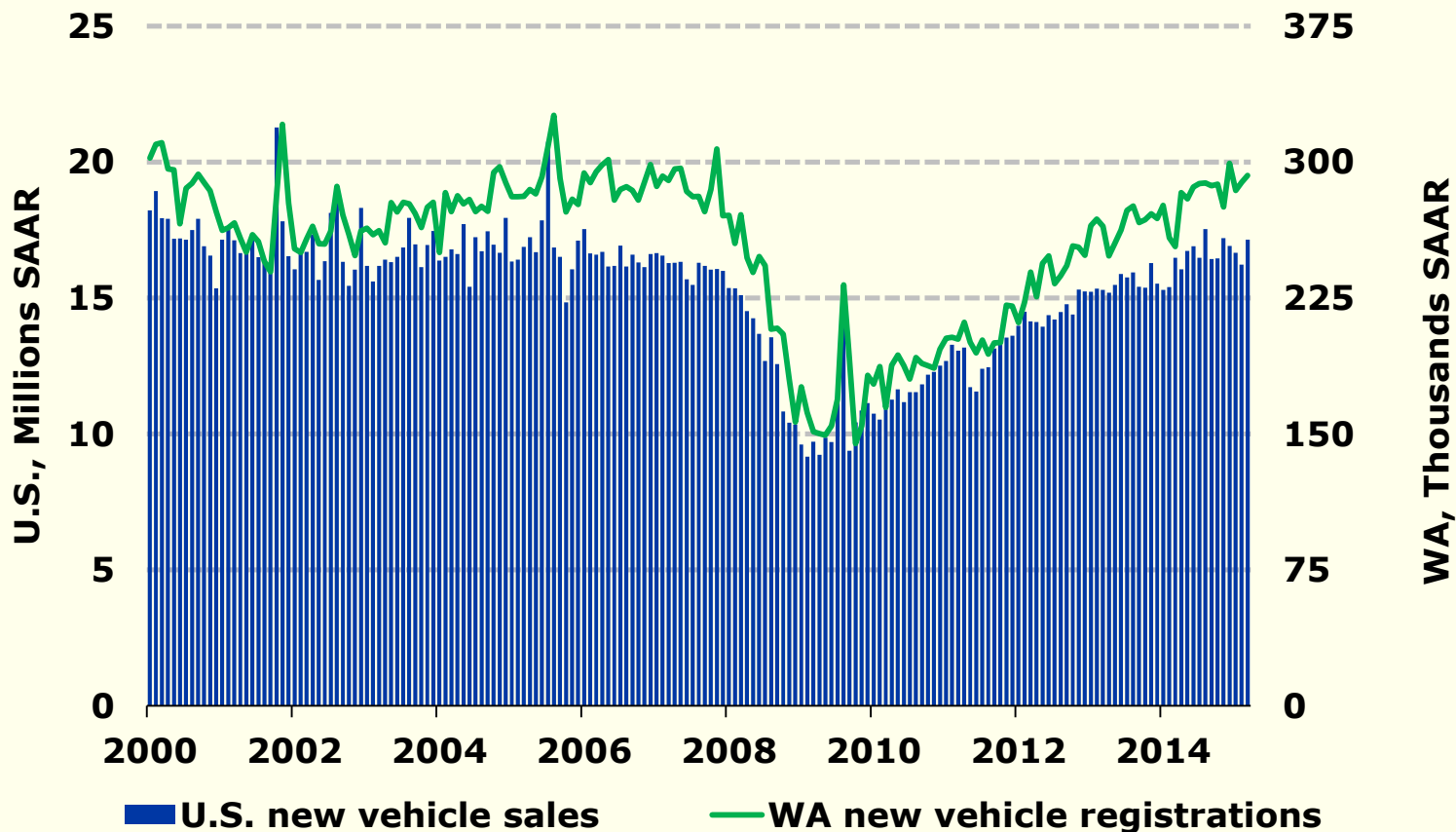


U.S. nonfarm employment is expected to grow 2.3% this year after 1.9% growth in 2014





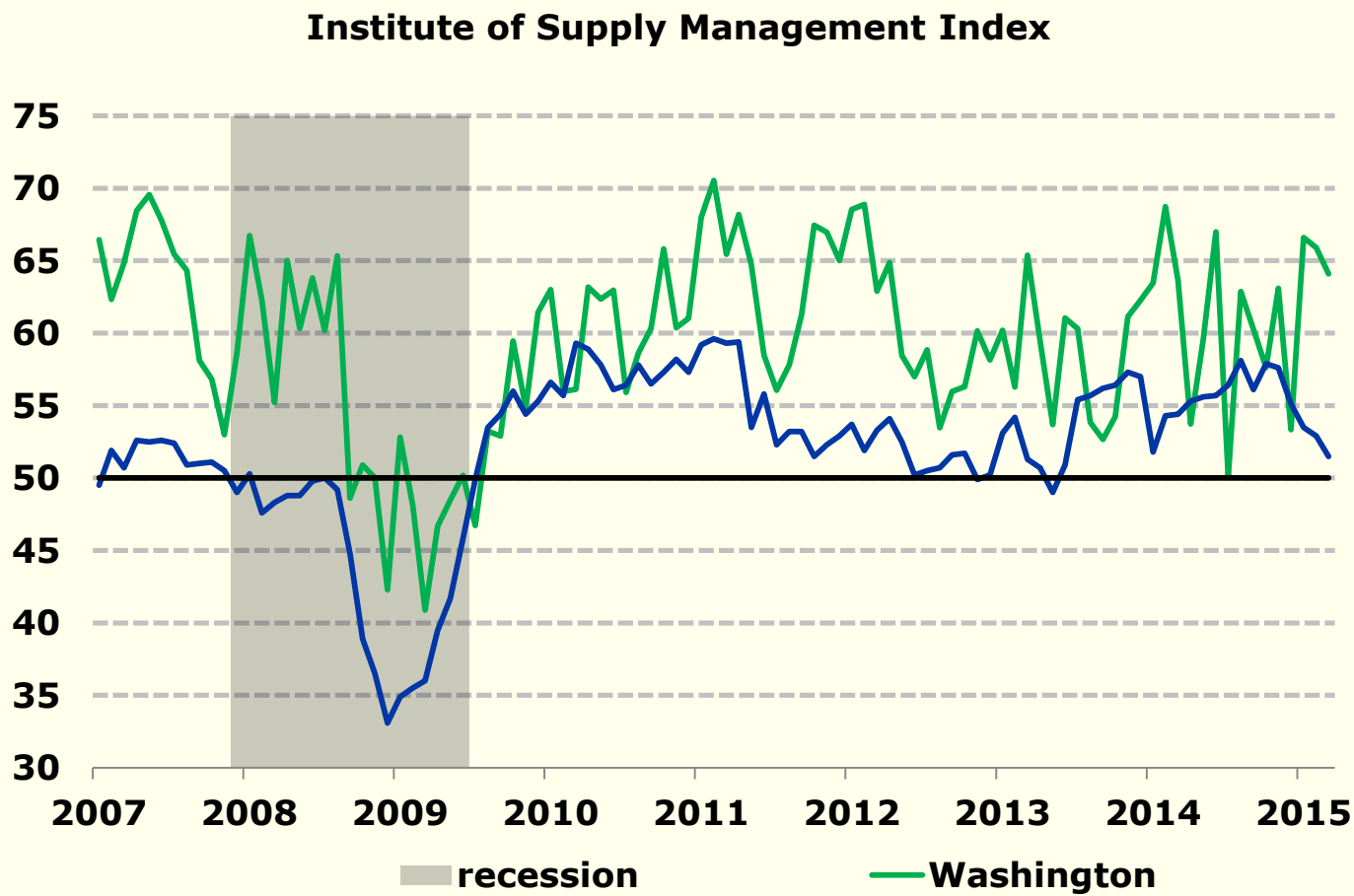
Vehicle sales trend has been positive





Manufacturing activity has been stronger in WA than in the nation as a whole

An index greater than 50, implies growth

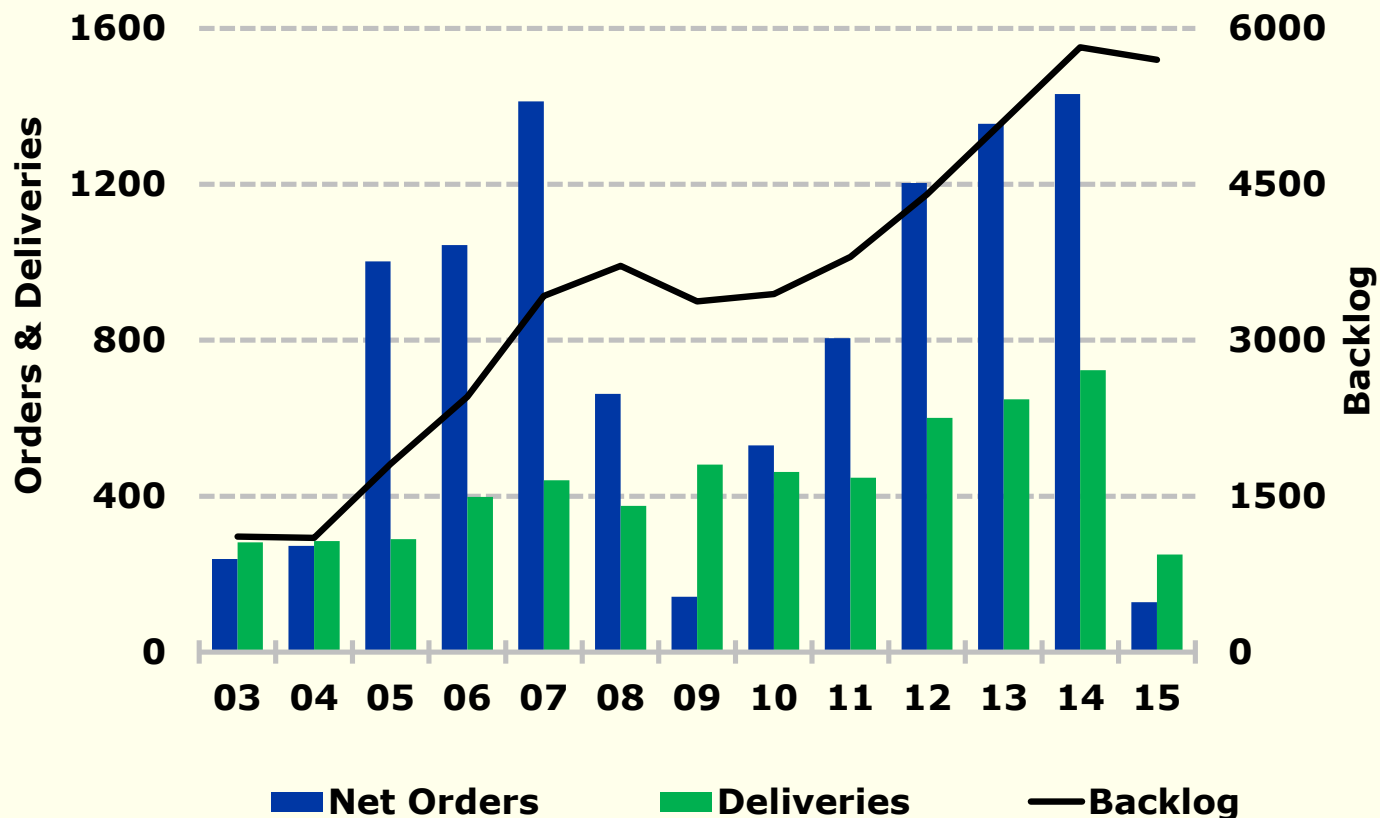


Source: Institute of Supply Management; data through March 2015



Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through April 2015



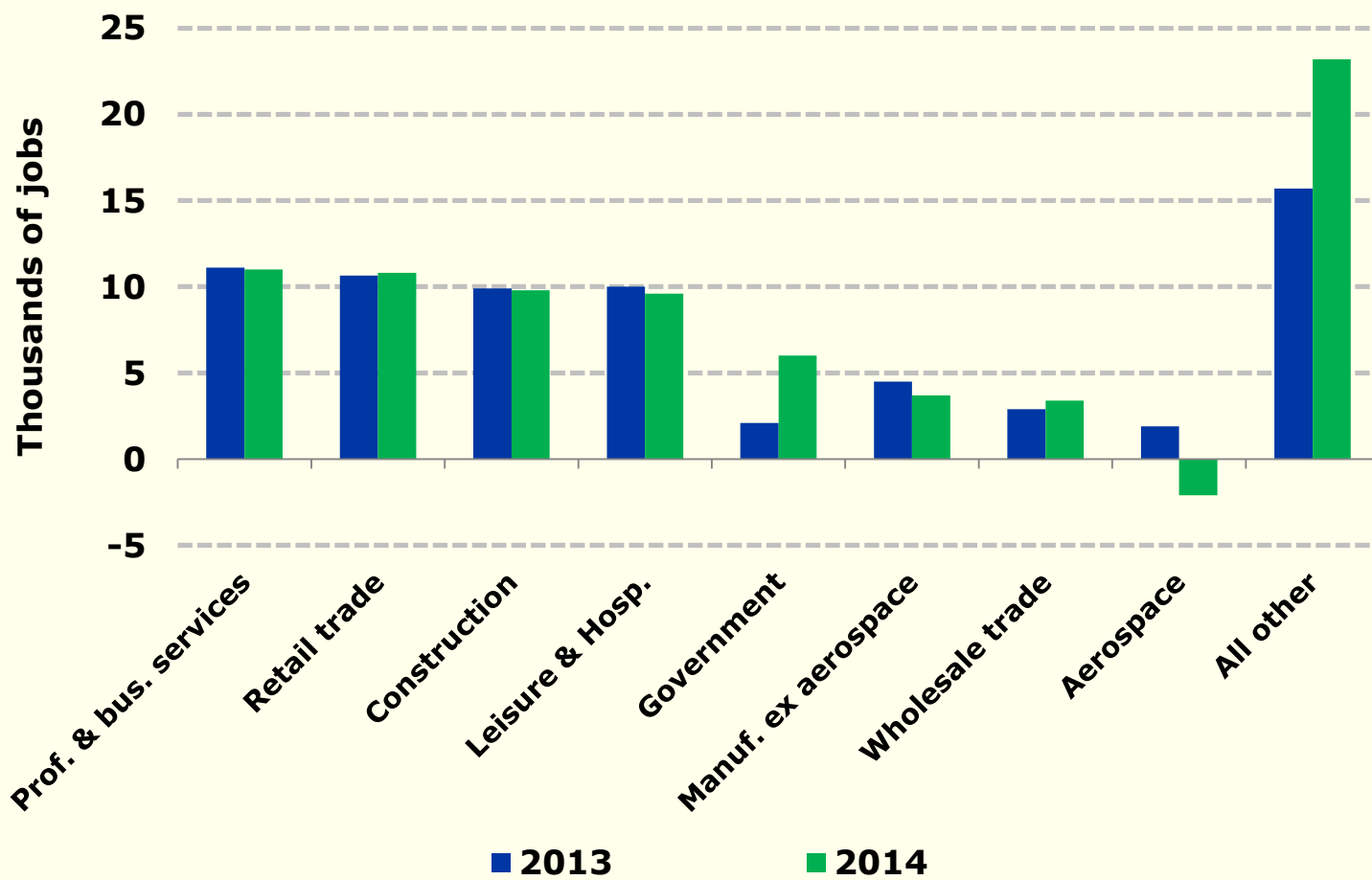
Changes in Washington employment by industry

Nonfarm

employment
change:

•2013 = 69,000

•2014 = 75,000

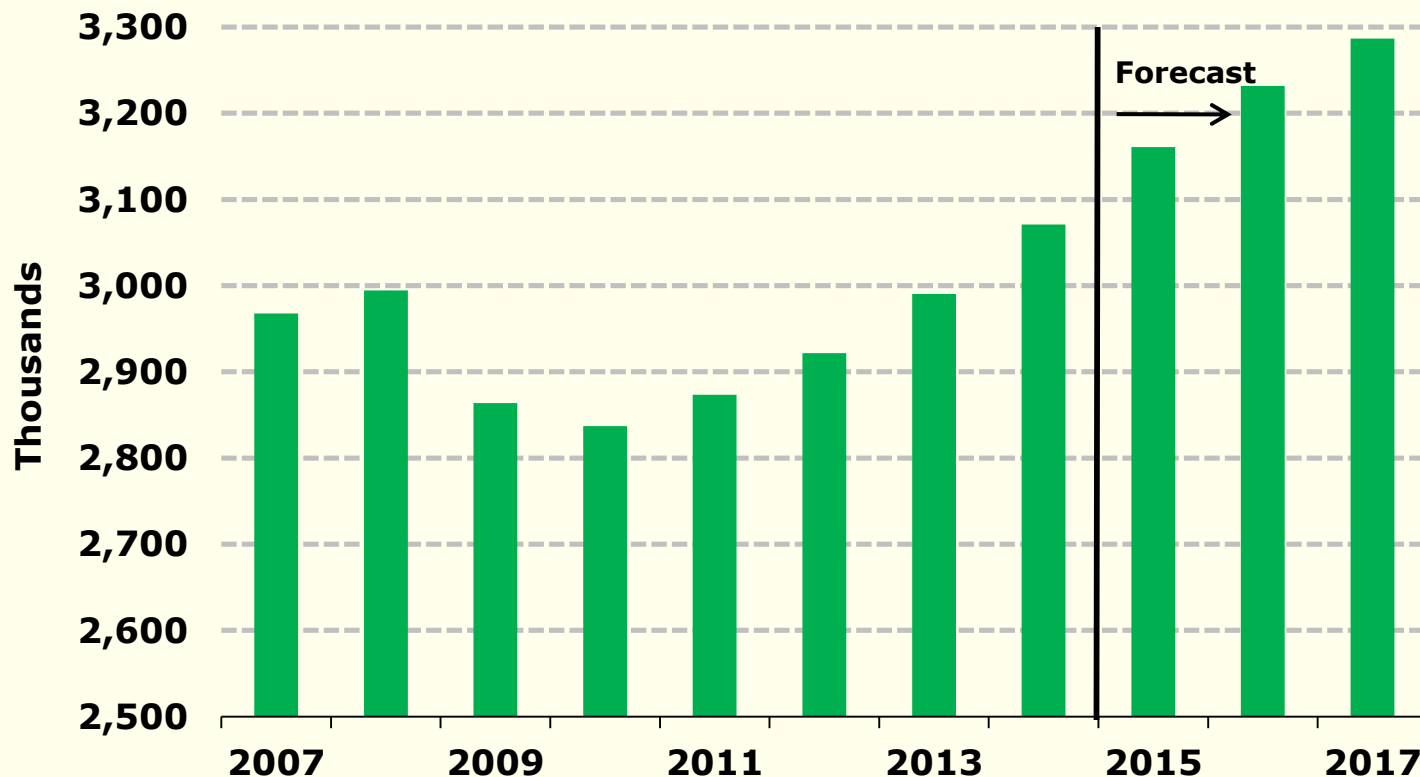


Sources: ERFC, ESD data through 2014



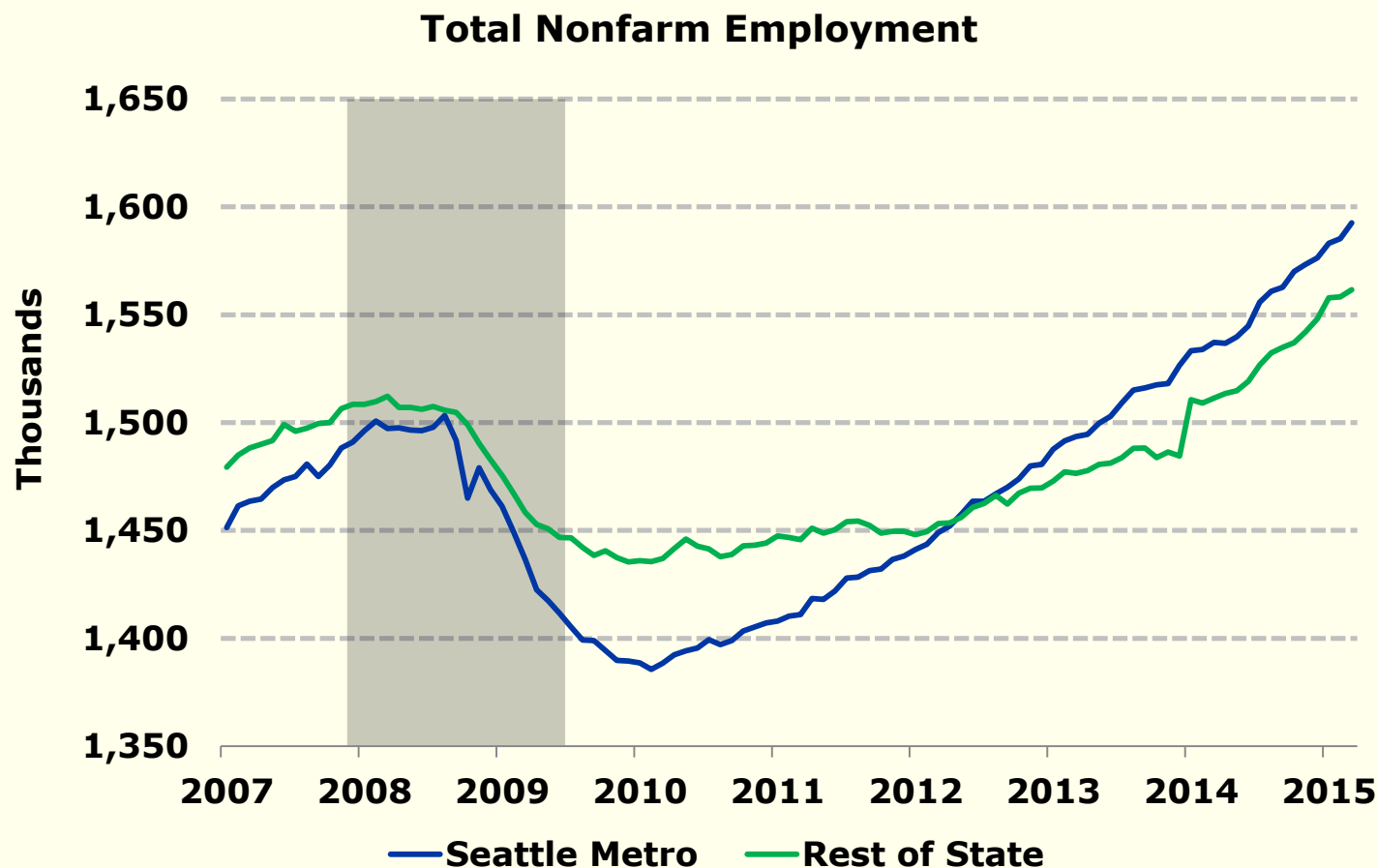
Washington payroll employment growth is expected to average 2.3% over 2015 - 2017

Washington Nonfarm Payroll Employment





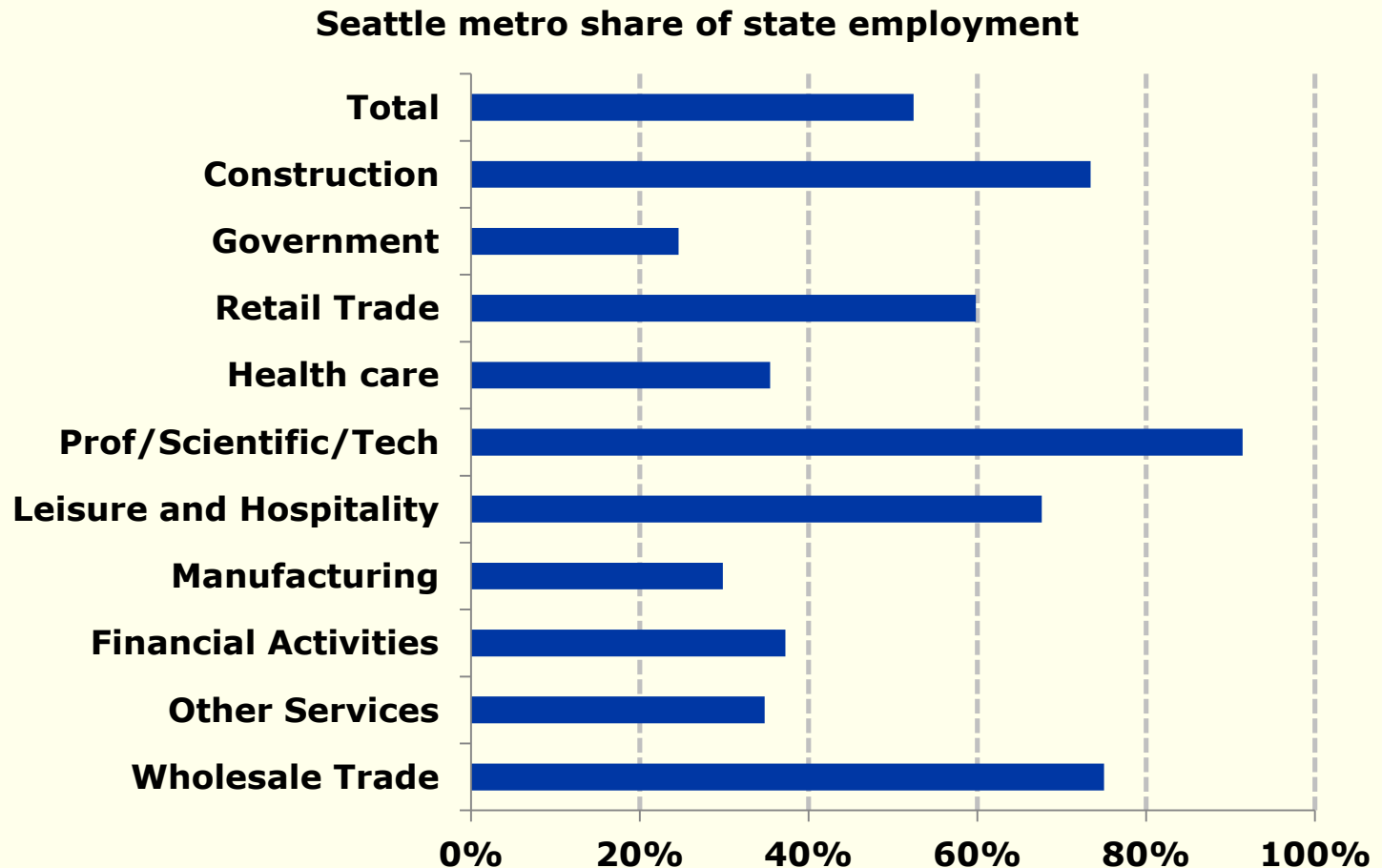
Seattle area employment is growing much faster than the rest of the state





Seattle metro area accounted for over 52% of state employment gains for year ending March 2015

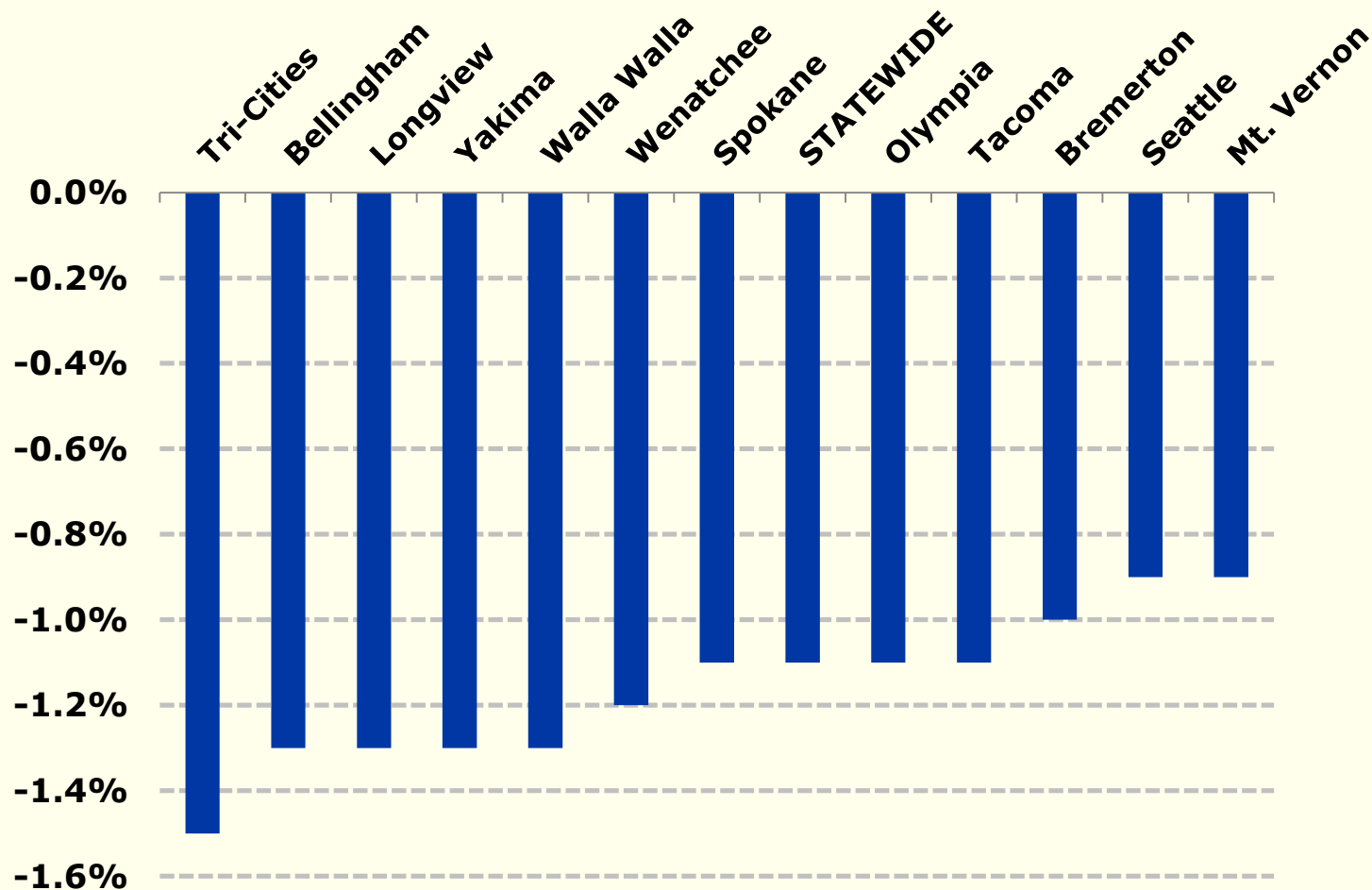
Seattle metro area is 40% of the state's population



Sources: WA State Employment Security Dept, U.S. Census Bureau

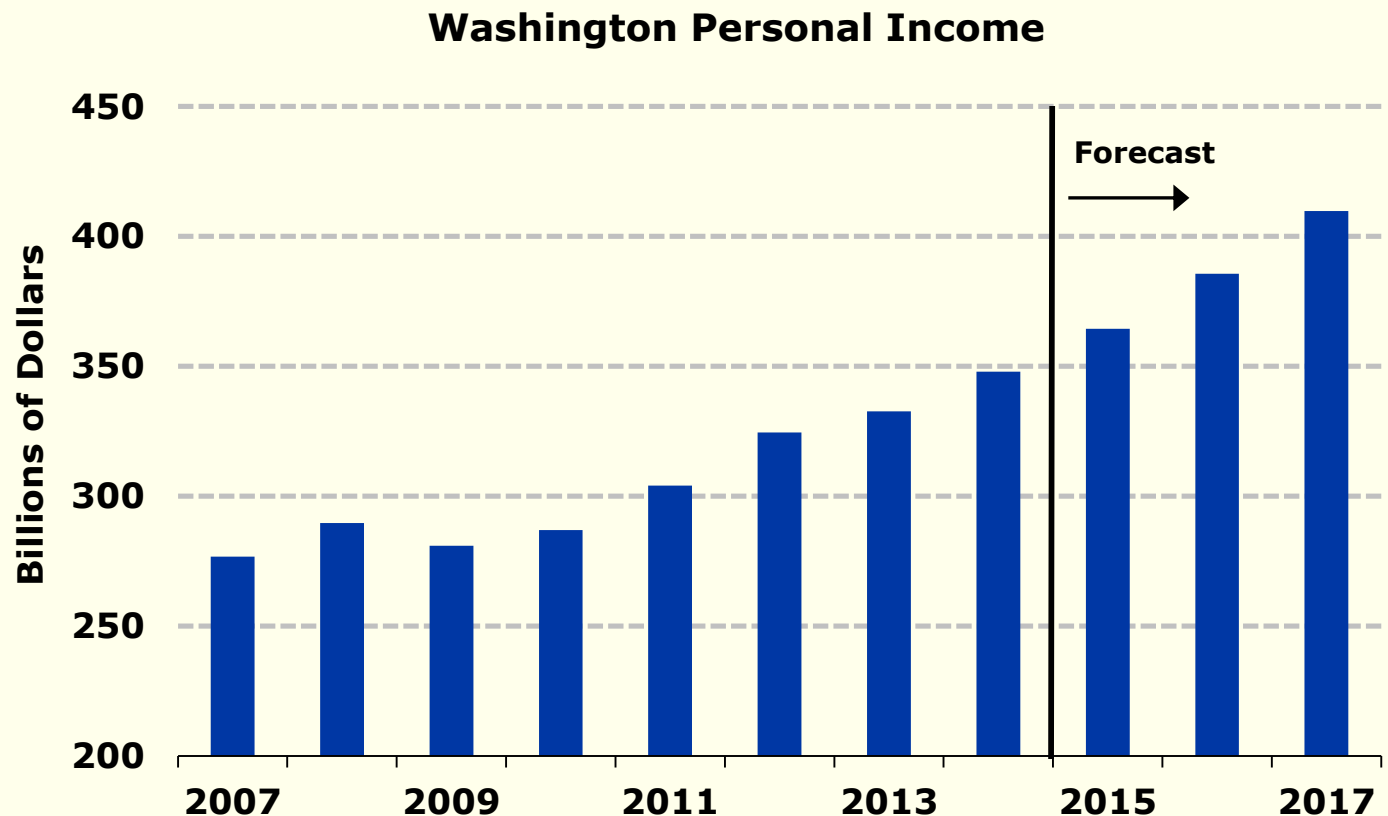


Change in unemployment rates by metro area, March 2014 to March 2015





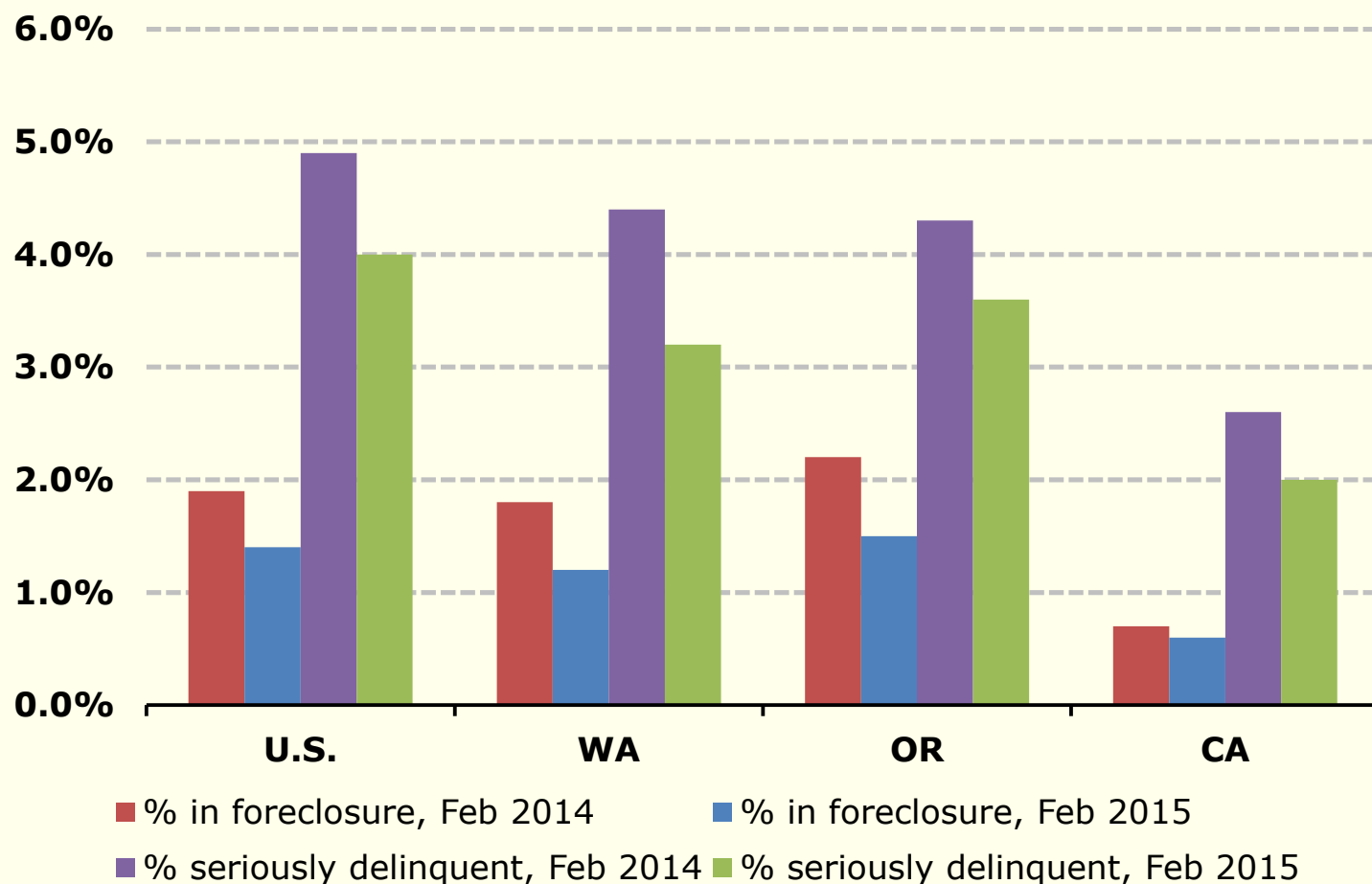
Washington personal income is forecast to average 5.6% annual growth over 2015 – 2017





The number of homes in foreclosure or seriously delinquent continues to decline

Seriously delinquent mortgages are 90+ days in arrears

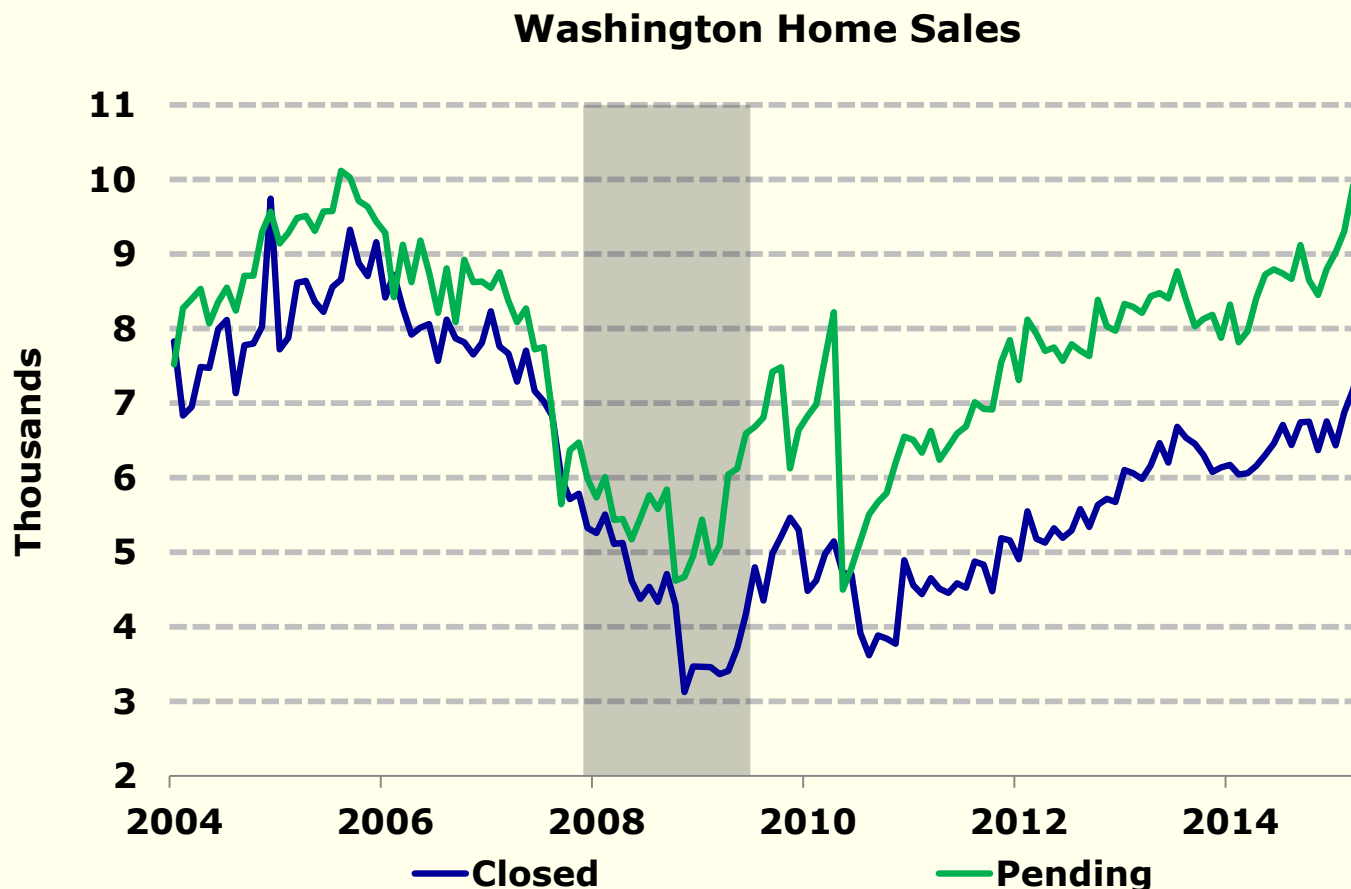


Source: CoreLogic, data through Feb. 2015



Washington home sales have been trending downward recently

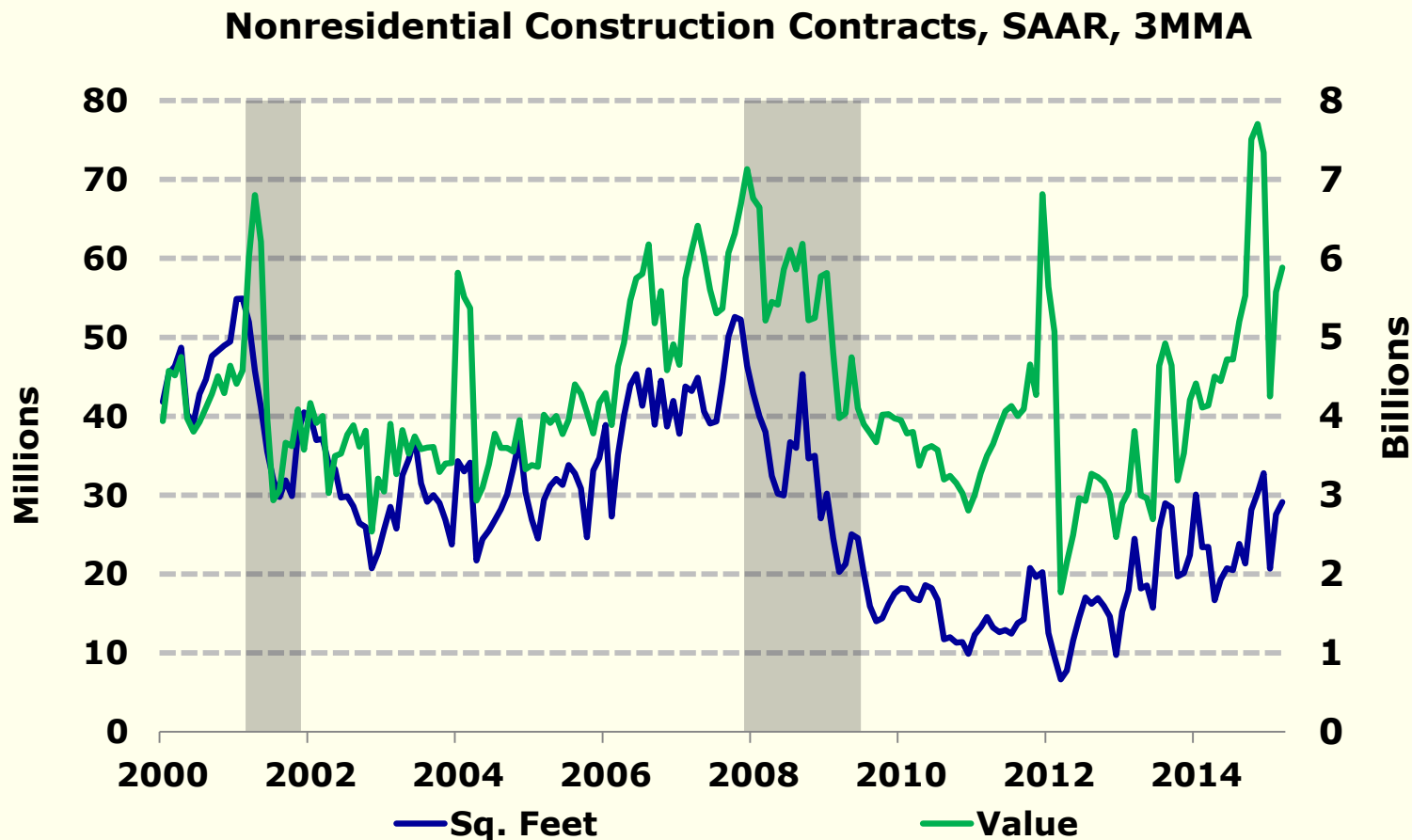
In last six months, 39% of closed sales were in King County



Source: NWMLS, ERFC; data through April 2015

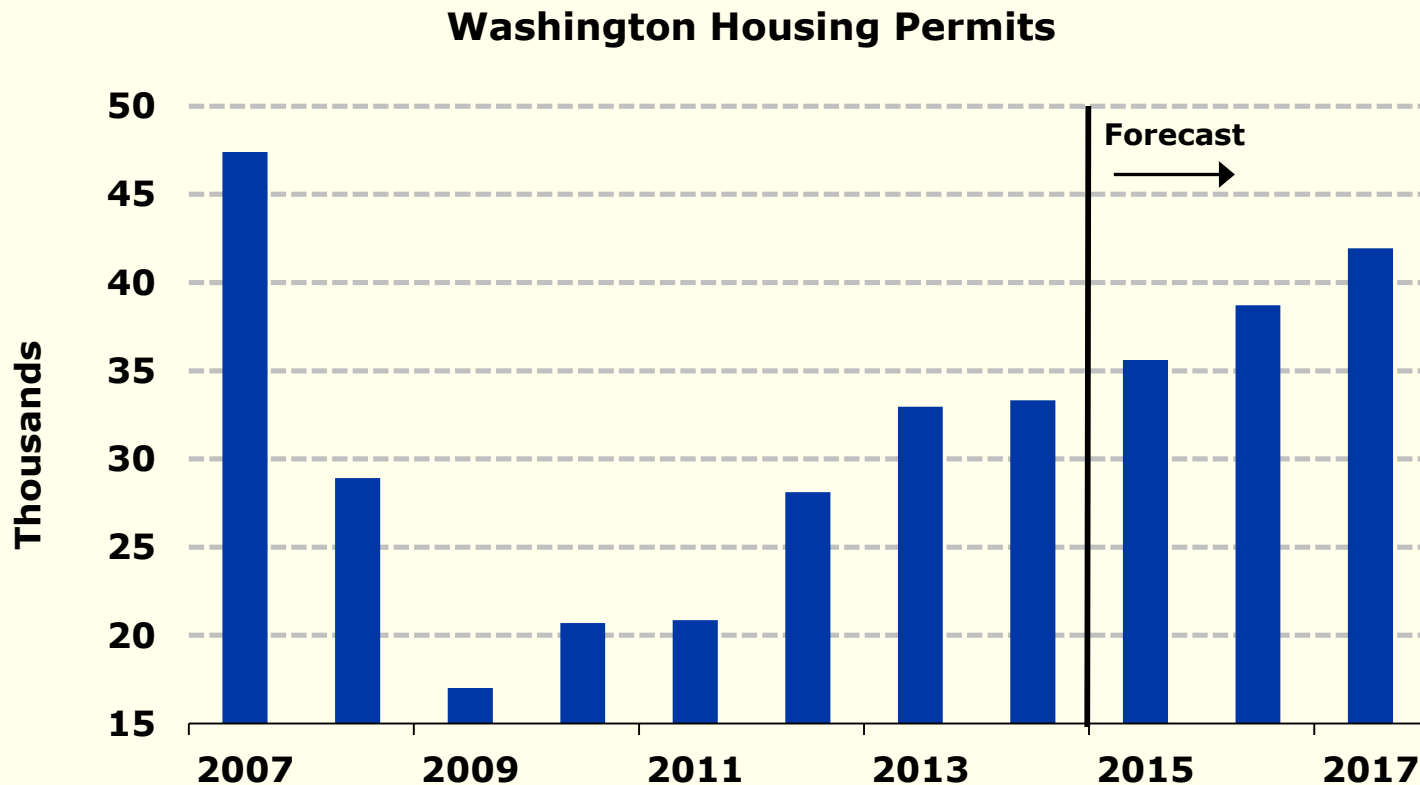


Contract data: non-residential activity volatile but trending up



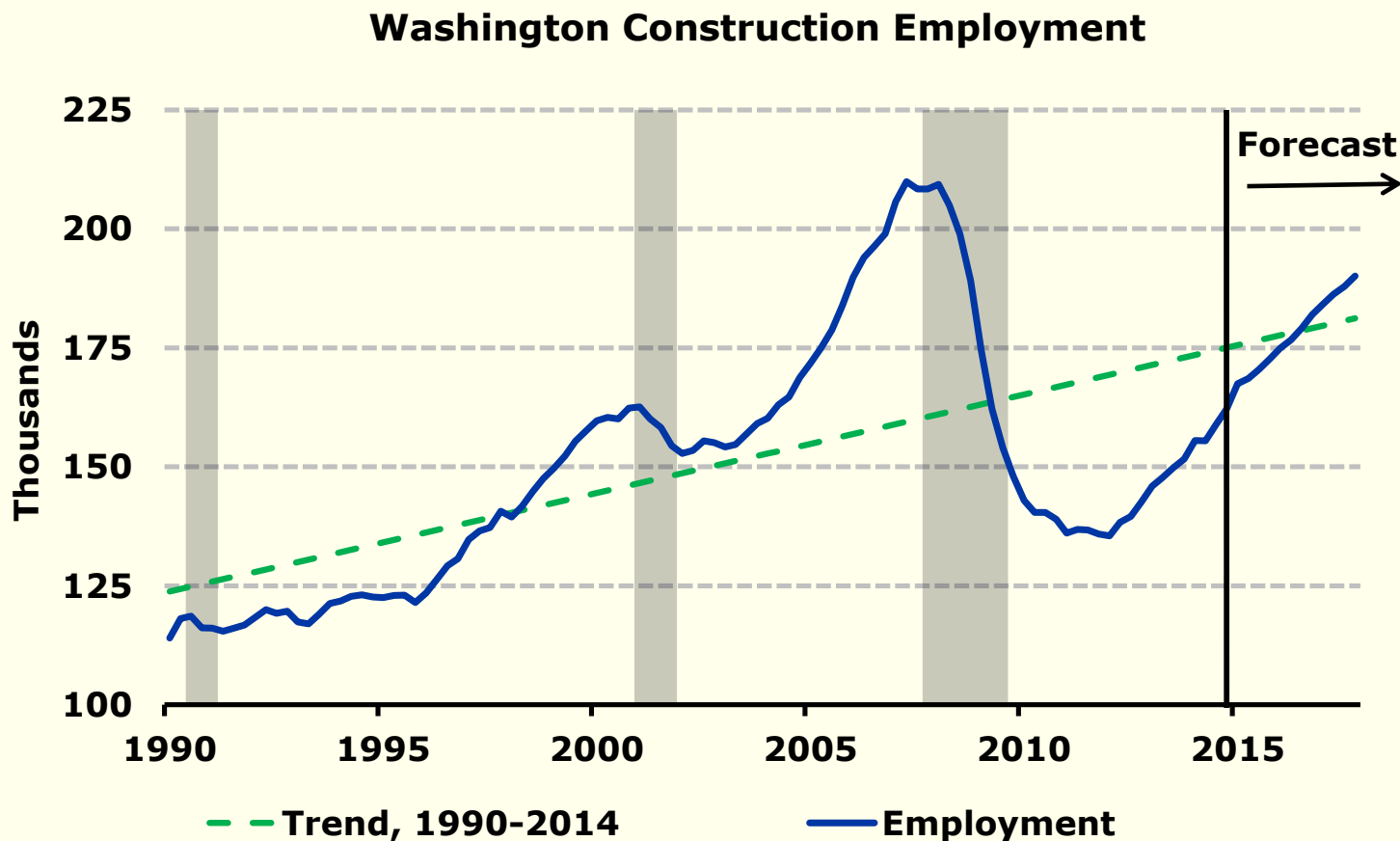


Washington housing permits are expected to increase through 2017



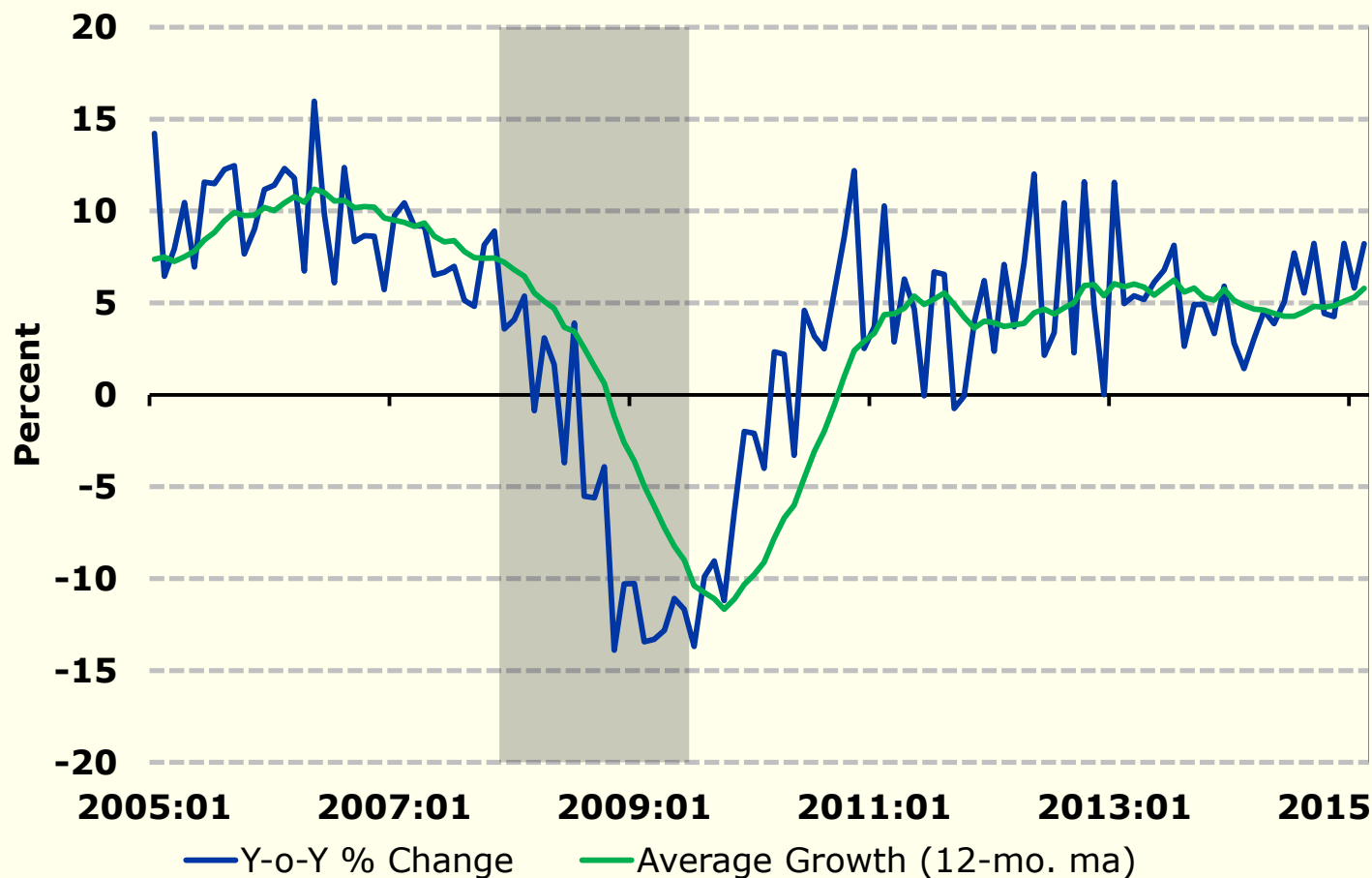


Washington construction employment is recovering





Growth in Revenue Act collections has averaged around 5% since mid-2011



Source: DOR, ERFC; collections through February 2015 activity



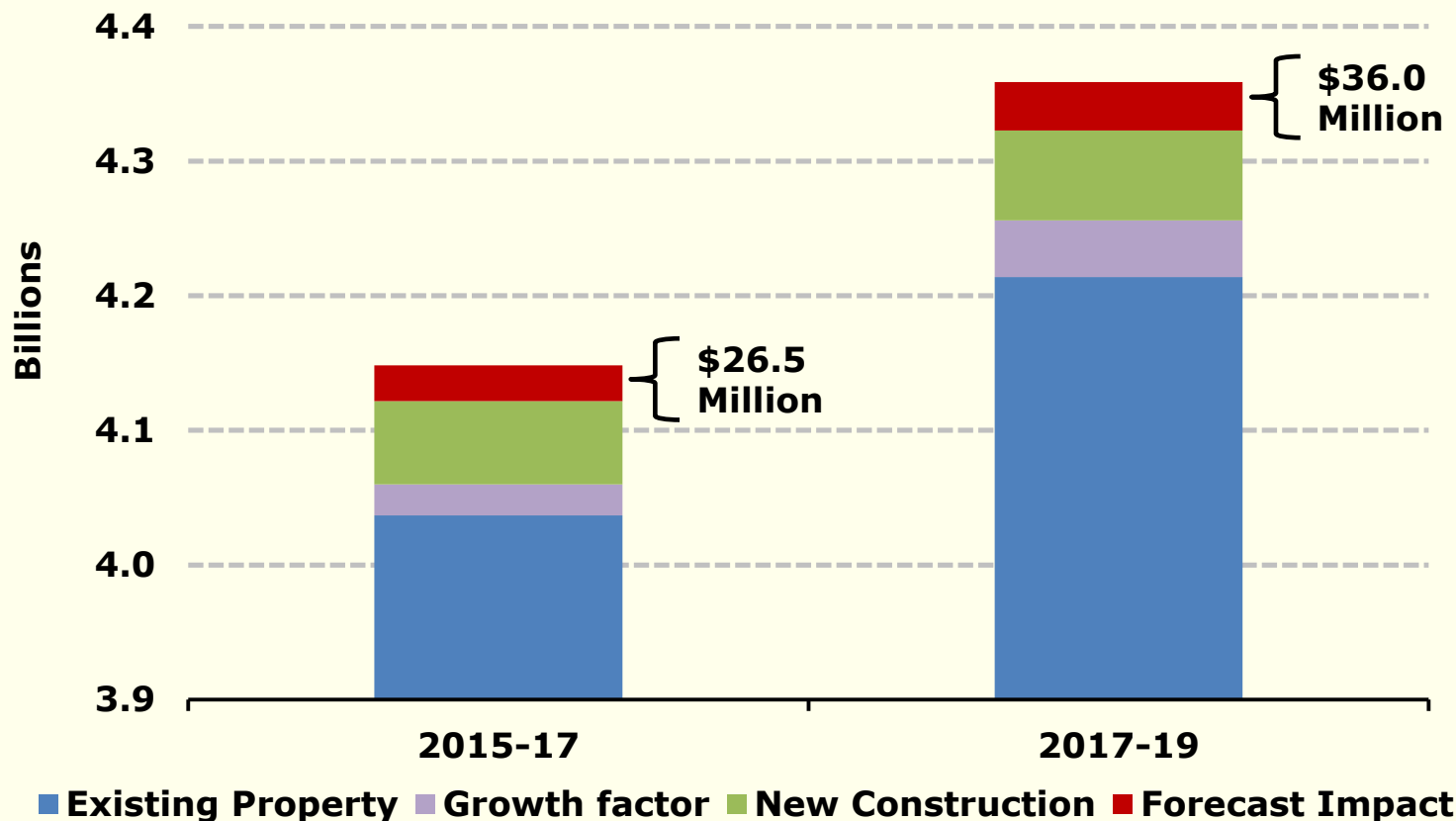
Property tax growth limited to lesser of inflation or 1%

Property tax
growth factor
for 2015 =
0.1%;

Forecast
impact =

2015-17:
-\$26.5 M

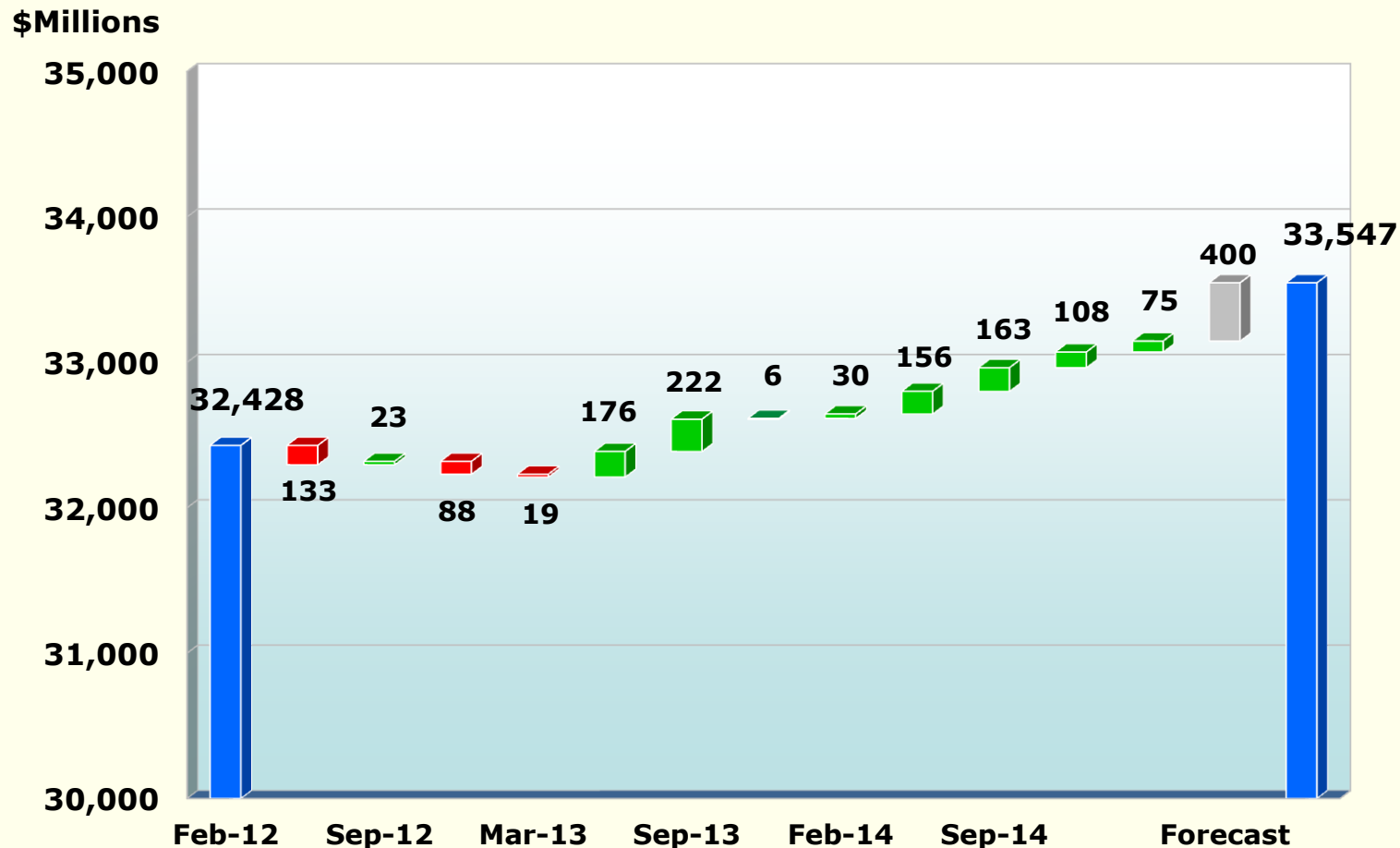
2017-19:
-\$36.0 M



Source: DOR, ERFC February 2015 forecast; historical data through January 2015



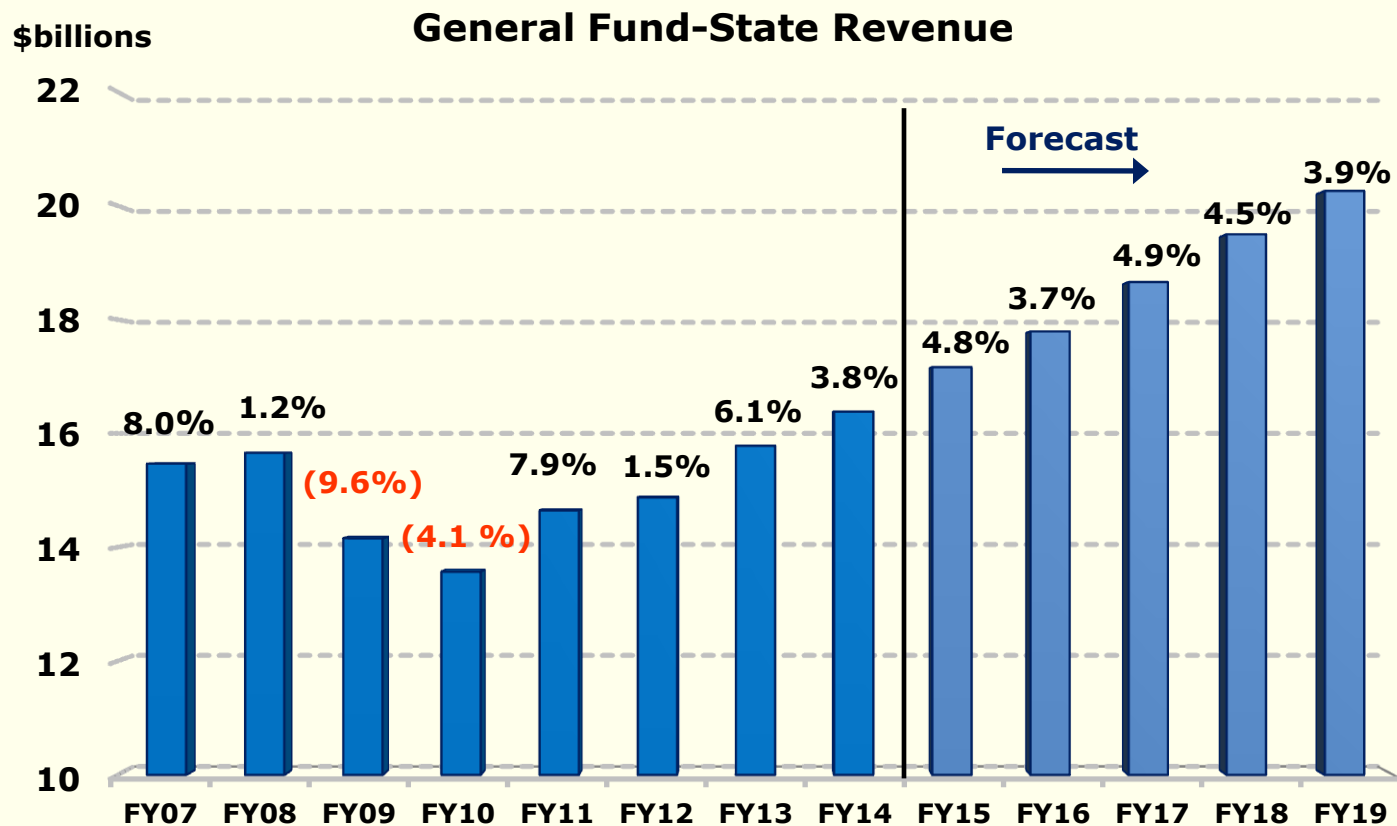
GF-S forecast revisions to the 2013-15 biennium



Source: ERFC February 2012 – February 2015 forecasts
Gray area indicates total noneconomic change

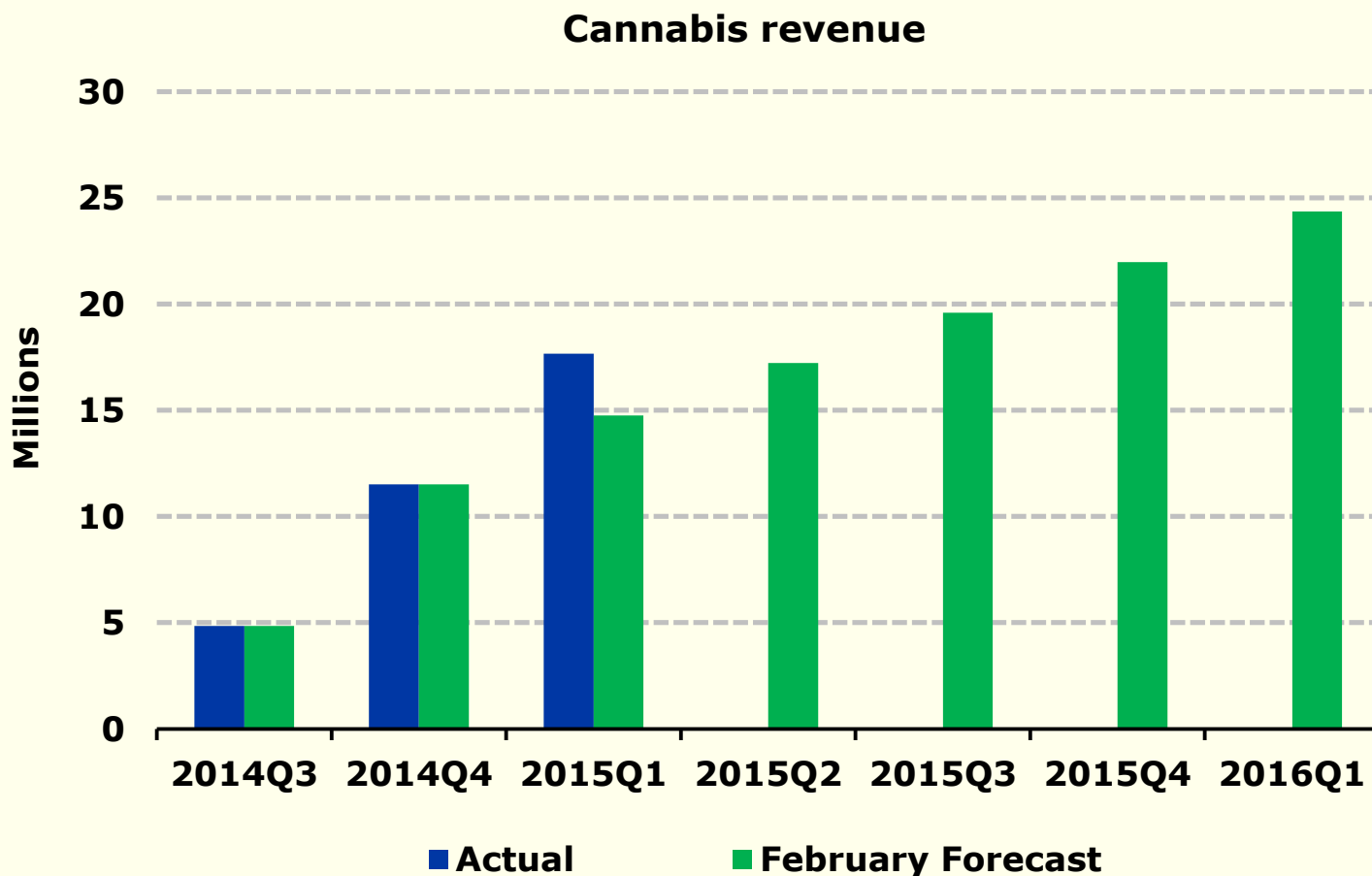


General Fund-State* forecast by fiscal year





Cannabis revenue is above forecast, but still needs to pick up



Source: LCB, ERFC February 2015 forecast; historical data through 2015 Q1



Cannabis excise tax and license fee estimates

\$Millions

February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$6.7	\$39.3	\$65.7
Non-GF	\$36.8	\$182.3	\$297.1
Total	\$43.4	\$221.6	\$362.8

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTECH Analysis



Conclusion

- February's economic forecast was quite similar to the previous forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- The Washington economy is expected to outperform the U.S. economy by a small margin
- The level of uncertainty in the baseline remains elevated, with risks on both the upside and the downside



Questions



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